BUSINESS INFORMATION RESOURCE MATERIALS

Government of
Saskatchewan

SUCCESS
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INNOVATION

SASKATCHEWAN
BUSINESS
INFORMATION
RESOURCE MATERIALS

DEVELOPING SASKATCHEWAN BUSINESS

- **A. Basic Business Information Package**
- **B. Business Planning and Start-up**
- **C. Market Development**
- **D. Advertising and Promotion**
- **E. Product Development**
- **F. Retail Management**
- **G. Home-Based Business**
- **H. General Management**
- **I. Co-operatives Information**

Enclosed please find a package of updated information for your Business Information Resource Materials binder.

- Replace the *Business / Co-operative Information Resource Materials Index* (note that there is no change to the Table of Contents)
- Replace sections A through H (note that the updated sections G & H are grouped together)
- Add attached contact to page 3 of #E5774 – ***INVENTORS – Sources of Information*** under the section: **The following is a list of firms located in Saskatchewan that deal with 'Intellectual Property'.**

#05160TM

Furman & Kallio, Barrister & Solicitors
Patent and Trademark Agents
13 – 1724 Quebec Avenue
SASKATOON SK S7K 1V9
Phone: (306) 931-4410
Fax: (306) 931-6610

Filing Instructions
Saskatchewan Industry and Resources
Business and Co-operative Services
06/02

Government of Saskatchewan

Canada

business infosource
Canada - Saskatchewan Business Service Centre

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Key Business Links
Regional Partners
Aboriginal Business
National CBSC

Sources of Information and Required Licenses - Regina and Region

Saskatchewan Industry and Resources Saskatchewan

Last Verified: 11/15/2002 **Document No.** 5748

Summary
Canada-Saskatchewan Business Service Centre - http://www.cbsc.org/sask

345 3rd Avenue South
Saskatoon, Saskatchewan S7K 2H6
Toll Free: 1-800-667-4374

Saskatchewan Industry and Resources - http://www.ir.gov.sk.ca
Regina Regional Office
1925 Rose Street
Regina, Saskatchewan S4P 3P1
Telephone: 306-787-1605
Toll Free: 1-800-265-2001

Western Economic Diversification - http://www.wd.gc.ca
Toll Free: 1-888-338-9378
P.O. Box 2025
Suite 601, 119-4th Avenue South
Saskatoon, Saskatchewan S7K 3S7
Telephone: 306-975-4373

1925 Rose Street
Regina, Saskatchewan S4P 3P1
Telephone: 306-780-8080

CBD - Centre for Business Development - http://www.cbdregina.com
1925 Rose Street
Regina, Saskatchewan S4P 3P1
Telephone: 306-780-8331
Toll Free: 1-877-780-8331

Conseil de la Co-operation de la Saskatchewan
230 - 3850 Hillsdale Street
Regina, Saskatchewan S4S 7J5
Telephone: 306-566-6000
Toll Free: 1-800-670-0879

East Central Development Corporation - http://www.eastcentral.sk.ca
Box 727
601 Edmonton Street
Broadview, Saskatchewan S0G 0K0
Telephone: 306-696-2443

Marieval Enterprise Center - http://www.marieval.com/
P.O. Box 69
Cowessess, Saskatchewan S0G 5L0
Telephone: 306-696-2212

Regina REDA - http://www.rreda.com
Suite 255, 1919 Rose Street
Regina, Saskatchewan S4P 3P1
Telephone: 306-522-0227
Toll Free: 1-800-886-5644

Long Lake REDA
P.O. Box 1082
Watrous, Saskatchewan S0K 4T0
Telephone: 306-946-2223

Mainline REDA
P.O. Box 849
320 Main Street
Broadview, Saskatchewan S0G 0K0
Telephone: 306-696-2550

Touchwood Hills REDA
P.O. Box 489
Cupar, Saskatchewan S0G 0Y0
Telephone: 306-723-4688

Gateway REDA - http://www.world-spectator.com/reda
P.O. Box 1617
701 Main Street
Moosomin, Saskatchewan S0G 3N0
Telephone: 306-435-3177

Rural Service Centres
Indian Head: 306-695-4250
Moosomin: 306-435-4525
Regina: 306-787-2344

To register a company name or incorporate a business
Saskatchewan Justice
Director, Corporations Branch -
http://www.saskjustice.gov.sk.ca/Corporations/about.shtml
2nd Floor, 1871 Smith Street
Regina, Saskatchewan S4P 3V7
Telephone: 306-787-2962

Sole Proprietorship/Partnership:
$ 50.00 Provincial Name Search
$ 60.00 Federal Name Search
$ 50.00 Registration
$ 10.00 Sask. Gazette Publication Fees

Incorporation:
$ 50.00 Provincial Name Search
$ 60.00 Federal Name Search
$250.00 Registration
$ 10.00 Sask. Gazette Publication Fees

Libraries - http://www.rpl.regina.sk.ca
Regina Public Library
2311 - 12th Avenue
Regina, Saskatchewan S4P 3Z5
Telephone: 306-777-6000
Check the Yellow Pages for a library in your area

Saskatchewan Finance - http://www.gov.sk.ca/finance/revenue/default.htm
Corporation Capital Tax; Provincial Sales Tax; Fuel Tax (Collectors); Liquor Consumption Tax; Tobacco Tax; Beverage Container Program
Saskatchewan Finance
Revenue Division
2350 Albert Street
Regina, Saskatchewan S4P 4A6
Telephone: 306-787-6768
Toll Free: 1-800-667-6102

Canada Customs and Revenue Agency - http://www.ccra-adrc.gc.ca
GST; Income Tax; Payroll; Canada Pension Plan and Import/Export enquiries:
Canada Customs and Revenue Agency
Regina Tax Services Office
1955 Smith Street
Regina, Saskatchewan S4P 2N9
Telephone: 306-780-6223
Toll Free: 1-800-959-5525

Human Resources Development Canada - http://www.hrdc-drhc.gc.ca/ae-ei/pubs/roe-2002.shtml
South Broad Plaza, 2045 Broad Street
Regina, Saskatchewan S4P 2N6
Record of Employment - Toll Free: 1-800-667-7554
General Enquiries - Toll Free: 1-800-206-7218

Municipal Licenses
Contact your local city hall, town, village office or rural municipal office
City of Regina, City Hall - **http://www.cityregina.com**
Box 1790
2476 Victoria Avenue
Regina, Saskatchewan S4P 3C8
Licensing: 306-777-7717
Commercial Assessment: 306-777-7233
Building Permits: 306-777-7283
Mechanical & Plumbing: 306-777-7292
Zoning: 306-777-7551

Workers' Compensation - http://www.wcbsask.com
Workers Compensation Board
#200 - 1881 Scarth Street
Regina, Saskatchewan S4P 4L1
Telephone Claims: 306-787-4370
Toll Free Claims: 1-800-667-7590
Telephone Assessment: 306-787-9516
Toll Free Assessment: 1-800-667-7580

Women Entrepreneurs of Saskatchewan Inc. - http://www.womenentrepreneurs.sk.ca
Toll Free: 1-800-879-6331
Head Office: 112 - 2100 8th Street East
Saskatoon, Saskatchewan S7H 0V1
Telephone: 306-477-7173

1925 Rose Street
Regina, Saskatchewan
Telephone: 306-359-9732

Health Permit/Regulations
Regina Health District
2180 - 23rd Avenue
Regina, Saskatchewan S4S 0A5
Telephone: 306-766-7755 (Regina)

Liquor Licensing

Saskatchewan Liquor & Gaming Authority
Liquor Licenses and Permits
Box 5054
8th Floor, 2500 Victoria Avenue
Regina, Saskatchewan S4P 3M3
Telephone: 306-787-5563
Toll Free: 1-800-667-7565

Fire Regulations
Fire Commissioner
Corrections and Public Safety
310 - 1855 Victoria Avenue
Regina, Saskatchewan S4P 3V7
Telephone: 306-787-3774

City Fire Department - Administration
1205 Ross Avenue
Regina, Saskatchewan S4N 7A3
Telephone: 306-777-7830

Licenses are required for the following types of businesses:

- **Auctioneers; Collection Agents; Credit Reporting Agents; Direct Sellers (direct solicitors); Film and Video Classification; Motor Dealers; Cemeteries; and Sale of Training Courses.**

Application forms and the acts are available on the internet at the following Web site **http://www.saskjustice.gov.sk.ca/consumerpro/licensing** or contact the Consumer Protection Branch directly at the address below:

Saskatchewan Justice
Consumer Protection Branch -
http://www.saskjustice.gov.sk.ca/consumerpro/default.shtml
1871 Smith Street
Regina, Saskatchewan S4P 3V7
Telephone: 306-787-5550
Toll Free 1-888-374-4636

- **Agricultural Implements Dealers License**

The act and additional information is available on the internet at the following Web site **http://www.agr.gov.sk.ca/docs/about_us/programs_services/agimplementsbd01.asp** or contact the Agriculture Implements Board directly for forms at the following address:

Saskatchewan Agriculture Food and Rural Revitalization
Agriculture Implements Board
Room 201, 3085 Albert Street
Regina, Saskatchewan S4S 0B1
Telephone: 306-787-4693

Health and Safety - http://www.labour.gov.sk.ca/safety/INDEX.HTM
Saskatchewan Labour
Saskatchewan Occupational Health & Safety
1870 Albert Street
Regina, Saskatchewan S4P 3V7
Telephone: 306-787-4134 (workplace safety)
306-787-4496 (general enquries)
Toll Free 1-800-567-7233

Labour Standards - http://www.labour.gov.sk.ca/standards/index.htm
Saskatchewan Labour
Labour Standards Branch

1870 Albert Street
Regina, Saskatchewan S4P 3V7
Telephone: 306-787-2438
Toll Free: 1-800-667-1783

Water
Sask Water Corporation
4th Floor, 111 Fairford Street East
Moose Jaw, Saskatchewan S6H 7X9
Telephone: 306-694-3900

Water Department
City of Regina, City Hall
2476 Victoria Avenue
Regina, Saskatchewan S4P 3C8
Telephone: 306-777-7208

Highway Signage Approvals
Saskatchewan Highways and Transportation
2nd Floor, 2174 Airport Drive
Saskatoon, Saskatchewan S7L 6M6
Telephone: 306-933-8319

Tourism related signs call the local Regional Tourism Board

Environmental Impact Approvals - http://www.serm.gov.sk.ca/environment
Environmental Assessment Branch
Saskatchewan Environment and Resource Management
Room 142 - 3211 Albert Street
Regina, Saskatchewan S4S 5W6
Telephone: 306-787-6132

SaskPower - http://www.saskpower.com
2025 Victoria Avenue
Regina, Saskatchewan S4P 0S1
Telephone: 306-566-2121 (Head office)
Inquiries/Service Applications - Toll Free: 1-888-757-6937
Check the Blue Pages for service in your area.

SaskEnergy - http://www.saskenergy.com
1601 Winnipeg Street
Regina, Saskatchewan S4P 4E7
Telephone: 306-777-9200
Toll Free: 1-800-567-8899

Head Office
1777 Victoria Avenue
Regina, Saskatchewan S4P 2C7
Telephone: 306-777-9225

Check the Blue Pages for service in your area.

SaskTel - http://www.sasktel.com
2121 Saskatchewan Drive
Regina, Saskatchewan S4P 3Y2
Telephone: 306-310-4287
Toll Free: 1-800-667-8211 (general enquiries)

Prepared by:
Saskatchewan Industry and Resources, Business and Co-operative Services

Your First Stop for Business Information

Phone: (306) 956-2323 Toll Free: 1-800-667-4374.

Date Created: Important Notices

103-03588/

CO-OPERATIVES IN SASKATCHEWAN: AN INFORMATION SERIES

Saskatchewan Industry and Resources is developing a series of fact sheets about the structure, organization, incorporation, and operation of co-operatives. The series will also explore the flexibility of this unique business structure, and its application within a broad range of social and economic conditions.

The first three fact sheets provide basic information about:

- **Choosing a business structure:** how a co-operative compares with other types of businesses.
- **The co-operative structure:** how a co-operative business is structured and operated.
- **Registration of a co-operative:** the organizational steps and legal requirements to incorporate a co-operative in Saskatchewan.

The fact sheet about the registration of a co-operative includes a checklist of the necessary steps, and a description of the required documents.

The *Request for Name Search and Reservation* must be completed and submitted to the Corporations Branch, Department of Justice, to ensure the availability of the name you have selected for your co-operative. This should be done before you submit your incorporation documents.

The *Articles of Incorporation* and *Notice of Registered Office* documents, plus a set of your proposed bylaws, must be filed with the Department of Justice.

Guidance and ongoing support are available from Regional Development Officers, Saskatchewan Industry and Resources. Check their locations on the reverse side of this fact sheet for the officer in your region. We welcome your comments about the fact sheets and your suggestions for additional subjects in the series. Comments, suggestions, and requests for information should be directed to:

Saskatchewan Industry and Resources
4th Floor, 2103 – 11th Avenue
Regina, Saskatchewan
S4P 3V7

Telephone: **(306) 787-0190 or (800) 265-2001**
Facsimile: **(306) 787-8447**

We also invite you to visit Saskatchewan Industry and Resources on the Internet at http://www.ir.gov.sk.ca and to contact us through our web site.

Saskatchewan Industry and Resources
Business and Co-operative Services

1-800-265-2001

Estevan
303, 1133 – 4th Street
Estevan, Saskatchewan
S4A 0W6
Phone (306) 637-4505
Fax: (306) 637-4510

Moose Jaw
88 Saskatchewan Drive East
Moose Jaw, Saskatchewan
S6H 0V4
Phone: (306) 694-3623
Fax: (306) 694-3500

North Battleford
1202 – 101st Street
North Battleford, Saskatchewan
S9A 1E9
Phone: (306) 446-7444
Fax: (306) 446-7442

Prince Albert
P.O. Box 3003
3rd Floor, City Hall
1084 Central Avenue
Prince Albert, Saskatchewan
S6V 6G1
Phone: (306) 953-2275
Fax: (306) 922-6499

Regina
1925 Rose Street
Regina, Saskatchewan
S4P 3P1
Phone: (306) 787-1605
Fax: (306) 787-1620

Saskatoon
345 - 3rd Avenue South
Saskatoon, Saskatchewan
S7K 2H6
Phone: (306) 933-5750
Fax: (306) 933-7692

Swift Current
885 - 6th Avenue North East
Swift Current, Saskatchewan
S9H 2M9
Phone: (306) 778-8415
Fax: (306) 778-8526

Yorkton
23 Smith Street West
Yorkton, Saskatchewan
S3N 0H9
Phone: (306) 786-1415
Fax: (306) 786-1417

La Ronge
Office Of Northern Affairs
P.O. Box 5000
La Ronge, Saskatchewan
S0J 1L0
Phone: (306) 425-4284
Fax: (306) 425-4267

CHOOSING A BUSINESS STRUCTURE

Our Co-operative History

People around the world have been forming co-operatives for more than 150 years. In Saskatchewan, our co-operative history began before the turn of the century. Our first co-operatives were creameries and grain growers' co-operatives, but gradually more types were added including retail stores, credit unions, a range of agricultural co-operatives, and community service co-operatives such as recreation halls and community health clinics.

Saskatchewan's co-operatives range in size from small agricultural co-operatives to large industrial enterprises. They form a system of stable and enduring enterprises which make tremendous contributions to the economic and social health of communities, and provide thousands of jobs. They operate side-by-side with privately-owned businesses operated as sole proprietorships, partnerships and investor-owned corporations. Co-operatives are legally-established organizations which conform to our provincial laws. They are financed by selling shares to members, issuing securities approved by the Co-operatives Securities Board, and by debt capital.

The Co-operative Difference

A co-operative is owned and democratically controlled by its members. Surplus is allocated to the members in proportion to their purchases or use of the goods or services produced by the co-operative. Each member has one vote regardless of the investment s/he holds in the co-operative.

There are three important differences between co-operatives and other types of business: purpose, the way financial surplus or profit is used or distributed, and the ownership and control structure.

Purpose

The purpose of a private business, whether it is the corner drugstore or the largest manufacturer, is to make a profit for its owners on the capital they have invested. This is done by offering goods and/or services for sale to the public.

The purpose of a co-operative business is generally to provide its members with goods and/or services, usually at competitive prices. Savings, which belong to the members, are fundamentally different from profits on invested capital. For example, a member of a retail co-operative may receive his or her saving through lower prices at the time of purchase, as in a direct-charge co-operative, or through a patronage refund at the end of the year. The amount of the refund depends on the total surplus earned by the co-operative, and on the dollar-value of a member's purchases. Refunds, also called patronage refunds, are in proportion to a member's use of the co-operative. The greater the use, the greater the potential savings.

Distribution of Surplus

In a private business, profit is the money left after all expenses are paid. Profits or earnings can be reinvested in the business, or distributed to the owners in relation to the number of shares they own. Shares are a specific portion of the capital of a co-operative. The more money invested, the greater the potential for profit. In the case of an investor-owned corporation, the part of the profit which is returned to shareholders is distributed as dividends paid on shares. Such dividend rates are normally set by a corporation's board of directors.

In a co-operative business, any surplus at the end of the fiscal year is allocated to members' accounts as a patronage refund. All or part of these funds may be paid to the members, or kept in the business as additional members' shares or loans. In either case, the amount allocated to a member is in proportion to that member's use of the co-operative. In a worker co-operative, patronage dividends are normally based on hours worked and, in effect, increase the members' wages.

Control

In most businesses, control is in the hands of the owners, whether one or many. Further control is determined by the individual or group which owns the most voting shares.

In an investor-owned corporation, shareholders vote according to the number of shares they own. The more shares, the more votes. If individual shareholders cannot vote or choose not to, they may assign their voting rights to other individuals who then becomes the absent shareholders' "proxies". Thus, even in large corporations, if one person owns enough shares (either directly or by proxy), that person can effectively control the operation.

In a co-operative, each member has only one vote regardless of the amount of money that member has invested in the co-operative, and proxies are not permitted. Thus, the control structure of a co-operative is democratic.

Another important difference in the ownership and control structures of private and co-operative businesses is the way boards of directors are chosen. In non-incorporated private businesses, individual partners usually exercise direct control.

Public and private investor-owned corporations have boards of directors who guide the affairs of the corporation in the interests of the shareholders. They are elected by the shareholders, and those with the most shares exercise greater control. The directors may or may not be shareholders themselves.

Incorporated co-operative businesses and organizations also have boards of directors. These directors are members (or delegates in the case of federations or other co-operatives with delegate structures) who have been democratically elected by other members or delegates.

Loss or Liability

In a sole proprietorship or partnership, the owner or partners are legally liable for all debts, operating losses or other liabilities incurred by their business. In all corporations, including co-operatives, the liability of shareholders is limited to the value of the shares they hold.

Community Service Organizations

Organizations such as child care centres, community recreation halls, and community health clinics may be incorporated as non-profit co-operatives, non-profit corporations or business corporations. Boards of directors are elected in all cases. In co-operatives, the principle of "one member-one vote" is mandatory. In non-profit corporations, voting may be restricted to one member-one vote, but the restriction must be specified in the articles or bylaws. In business corporations, voting is based on the number of shares a person holds.

In community service organizations, whether co-operatives or charitable non-profit corporations, any surplus must be retained within the organization or donated to another non-profit organization or co-operative. It is never distributed to members or shareholders.

If the co-operative is set up as non-profit, it must be noted as a restriction in the articles. It could be worded as "this organization is established as a non-profit co-operative, and any surplus resulting from the yearly operation shall be transferred to reserve for future use and no part of the surplus shall be payable to any member."

Choosing a Business Structure

Members have several options when choosing a business structure. The appropriate choice depends on the organization's purpose and objectives. The following chart outlines some of the options and their advantages and disadvantages.

	Non-profit Co-operative	**Non-profit Corporation**	**For-profit Corporation**	**For-profit Co-operative**
Purpose	Voluntary for social, cultural and economic needs of members.	Activities for purposes other than personal financial gain.	Profit for shareholders on investment of time or money.	Service and saving for members.
Ownership	By members.	By members.	By shareholders.	By members.
Control (voting)	One member, one vote, no proxy voting.	One member, one vote unless otherwise specified in the articles or bylaws.	The number of voting shares held per shareholder.	One member, one vote, no proxy voting.
Liability	Members limited to membership amount. Directors can be liable.	Limited to the investment. Directors can be liable.	Shareholders limited to share subscription. Directors can be liable.	Members limited to share subscription. Directors can be liable.
Distribution of surplus or earnings	Surplus remains in co-op. Surplus goes to another non-profit group at time of dissolution.	Surplus remains in corporation. Surplus goes to the membership or to another charitable organization at time of dissolution.	Dividends paid on shares. Rate set by Board of Directors.	To members in proportion to use of service. Allocated, but members may choose to reinvest.
Initiation of Policies	Board of Directors, members and management.	Board of Directors, members and management.	Board of Directors, shareholders and management.	Board of Directors, members and management.

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

THE CO-OPERATIVE STRUCTURE

The main purpose of a co-operative is *to provide goods and/or services to its members*. However, there are many other benefits to forming a co-operative.

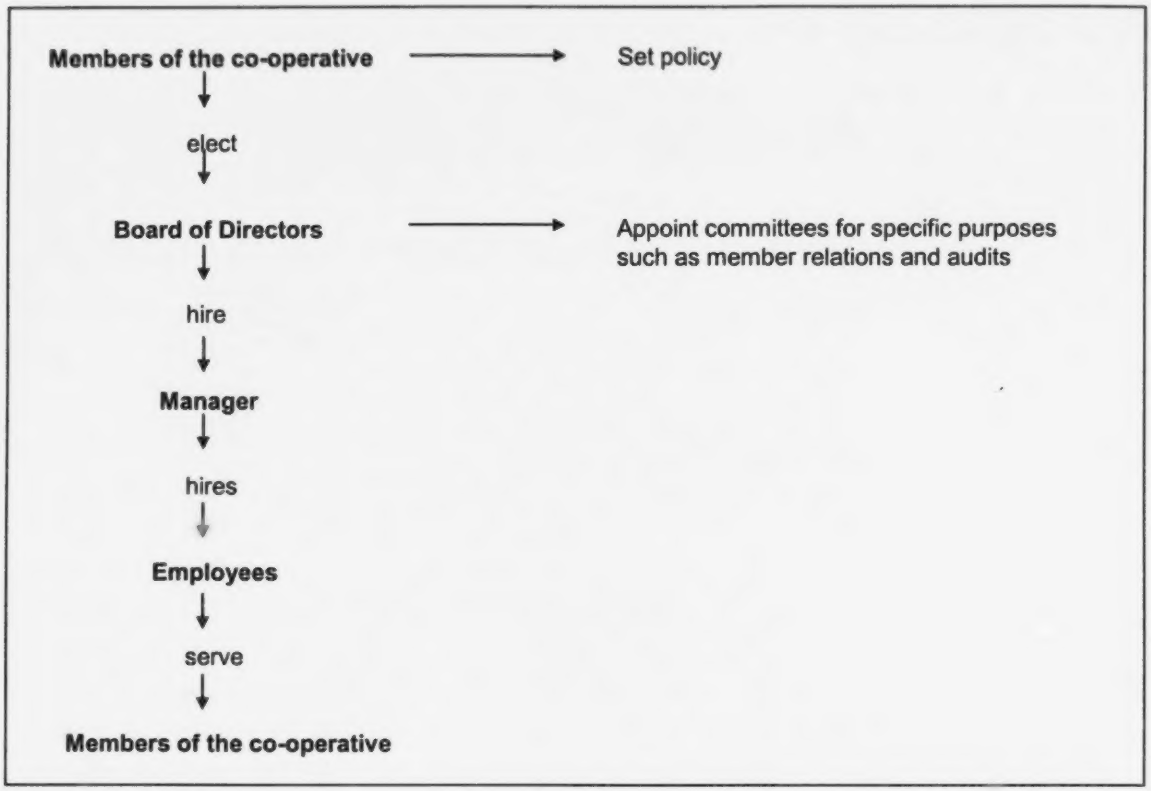
- Through their democratic structure, co-operatives enable their members to have direct input into the policies and direction of their organization.
- Profits generated by co-operatives usually stay in their community.
- Incorporating as a co-operative gives permanence to the organization. Unlike a sole proprietorship or partnership, operation does not cease with the retirement or death of an owner or partner.
- The democratic structure encourages people to work together.
- Control is kept in the hands of users, partners or owners.
- Co-operatives help to develop the knowledge and skills of their members.
- Co-operatives provide communities and groups with tested and proven organizational approaches to managing and coping with changing socio-economic conditions.

How a Co-operative Works

Members have direct input into the policies and direction of their organization through the election of the board of directors. In some cases, all members could be on the board but usually the membership is too large to meet to consider all decisions. Accordingly, the membership delegates authority for decision-making, between general meetings, to a board of directors. The board may delegate some responsibility, particularly operational/management issues, to an executive committee which is usually comprised of a president, vice-president, secretary and treasurer, and to management and staff when appropriate.

Other committees of the board (or a combination of board and membership representation) may be formed to handle specific duties such as member relations and audits. The board may also hire a manager to handle daily affairs, and to hire staff as needed.

Standard Flow of Activities for the Operation of a Co-operative


Members of the co-operative
Set policy
elect
Board of Directors
Appoint committees for specific purposes such as member relations and audits
hire
Manager
hires
Employees
serve
Members of the co-operative

Roles and Responsibilities of Members

Members are the most important part of a co-operative, and the co-operative exists to meet their needs.

Just as the board has specific duties and responsibilities, members have responsibilities to themselves and to their organization. Members have a duty to:

- Attend meetings and other co-operative activities;
- Assist in amending bylaws as required;
- Help to finance the co-operative by purchasing shares;
- Communicate complaints and suggestions to management and the board of directors;
- Support the development of other co-operatives;
- Elect directors;
- Participate on committees and in other activities of the organization; and
- Use the services provided by the co-operative.

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

REGISTRATION OF A CO-OPERATIVE

An organization must be incorporated in order to be called a co-operative. The use of the word "co-operative" in the name or description of an organization is restricted only to incorporated co-operative organizations. The requirements and procedures of incorporation are detailed in *The Co-operatives Act, 1996*, which is administered by the Corporations Branch, Department of Justice.

The Co-operatives Act, 1996 addresses all legislative areas concerning co-operatives. Its purpose is to:

- Standardize Saskatchewan co-operative legislation;
- Provide for specific needs of individual co-operatives;
- Give co-operatives greater flexibility;
- Set out provisions which must be included in the articles and bylaws of co-operatives; and
- Allow for additional bylaws unique to the needs and operation of individual co-operatives. These are identified in the Act by the words "subject to the bylaws" at the beginning of the subsection. The provisions of the Act will apply in cases where bylaws have not been formulated.

Incorporation

In order to incorporate a co-operative, the incorporation package (which includes the *Articles of Incorporation*, a *Notice of Registered Office* and a proposed set of bylaws) must be completed and submitted to the Department of Justice with the appropriate fees.

It is important to establish or confirm your basic purpose so that everyone shares the same understanding of the organization's goals and objectives. A formal written schedule should be developed to outline all steps and deadlines in the development process. The schedule also enables you to designate specific tasks to members, with realistic objectives and achievable assignments.

Membership Requirements

A minimum of six persons is required to apply for incorporation unless special permission has been granted by the Registrar of Co-operatives. To become a member, a person must be at least sixteen years of age (or an age specified in the bylaws), and must have purchased the required number of shares or have paid the required membership fee. The shares or fees are determined by the incorporators.

The Incorporation Package

An application must be submitted to the Registrar of Co-operatives. The applicants are required to submit the forms of the incorporation package in duplicate (*Articles of Incorporation* in the prescribed form, a *Notice of Registered Office*, and a proposed set of bylaws) and the prescribed fee. The *Articles of Incorporation* and bylaws represent an agreement between members concerning the co-operative's aims, objectives and rules of operation, and they provide a sound legal basis of operation. The registrar may request additional information.

Directors

The directors named in the *Articles of Incorporation* will serve as directors until the co-operative's first general meeting, when directors will be elected for a stated term of office. A director must be a member of the co-operative.

The directors are responsible to:

- Direct the management of the co-operative's business and other affairs;
- Exercise the powers of the co-operative (directly or indirectly) through the employees and agents of the co-operative;
- Appoint committees as required;
- Comply with the bylaws set by the members and *The Co-operatives Act, 1996*; and
- Establish the policies of the co-operative.

Articles of Incorporation

The Co-operatives Act, 1996 requires that the *Articles of Incorporation* (Appendix B, Form A of The Co-operatives Regulations, 1998) establish the following criteria:

1. Name of the co-operative;
2. Details of share capital, par value of the shares and limits, if any, on the number of shares that can be issued by the co-operative;
3. If there is no share capital, the interest of each member is the same as the interest of every other member;
4. Number of directors or minimum of 5 and the maximum indicated;
5. Full names and addresses of the directors;
6. Objective or purpose of the co-operative (it is important to set objectives for a new co-operative to ensure that all members have the same understanding of its purpose and the anticipated level of involvement of the board of directors);
7. Any restrictions on business activities;
8. Any other provisions (example: if the intention of the co-operative is to carry on business without the purpose of financial gain for its members, a statement must appear in this section); and
9. Full names and addresses, with signatures, of the incorporators.

Bylaws

Section 8 of *The Co-operatives Act, 1996* requires that specific information be provided in a co-operative's bylaws. Additional information may be included.

A co-operative shall include bylaws relating to:

(a) Conditions of membership including:

  (i) The rights of joint members, if any;

  (ii) The qualification and withdrawal of members and the transfer of shares;

  (iii) The amount of the membership fee and the annual fee, if any, to be paid by members; and

  (iv) The conditions on which membership ceases or may be terminated, the disposition that may be made on cessation or termination of a member's interest, and the determination of the value of the member's interest.

(b) The election, term of office and removal of directors and members of directors' committees.
(c) The municipality in Saskatchewan where the registered office is to be situated.

(d) Where the co-operative proposes to divide the territory in which members are located into districts:

  (i) The establishment of district boundaries;

  (ii) The procedure for altering district boundaries; and

  (iii) Where there is to be a delegate structure, the defining of the powers, duties, election, voting rights and removal proceedings of district delegates.

(e) Where the co-operative proposes to divide its members who are shareholders into classes:

  (i) The qualifications of members of each class;

  (ii) The conditions precedent to membership in each class;

  (iii) The method, time and manner, and conditions precedent to transferring membership in one class to membership in another class;

  (iv) The conditions on which membership in a class ceases;

  (v) The method, time and manner of permitting members to withdraw from each class of members;

  (vi) Whether the interest of a member in a class may be assigned or transferred; and

  (vii) The automatic suspension of a member's rights when the member ceases to be qualified for membership in a class.

(f) The distribution of the co-operative's property on dissolution of the co-operative.

(g) Where the co-operative is to act as an agent for its members, a definition of the agency relationship between the co-operative and its members.

(h) Any matters, in addition to those described in clauses (a) to (g), that the members consider necessary or desirable.

Registration

The registrar will review the *Articles of Incorporation*, the *Notice of Registered Office* and the proposed set of bylaws for compliance with *The Co-operatives Act, 1996*. When all legislative requirements have been met and it is appropriate to approve the incorporation, the registrar may:

- Register the *Articles of Incorporation* and bylaws;
- Enter the name of the co-operative in the register;
- Issue a *Certificate of Incorporation* in accordance with section 271, stating that the co-operative is incorporated pursuant to this Act and showing the incorporation date; and
- Send to the co-operative at its registered office one copy of its articles and bylaws certified as registered.

The co-operative officially comes into existence on the effective incorporation date recorded on the *Certificate of Incorporation*. Within four months of the incorporation date, a co-operative must hold a general meeting at which all members are entitled to be present and to vote.

Annual General Meeting

The co-operative must hold an annual general meeting each year and no later than six months after the end of its fiscal year.

The board of directors should have its first meeting after the annual general meeting, and should elect a president, vice-president and a secretary-treasurer (or a secretary and a treasurer) at that time. The names of the directors and officers must be included in the annual return filed with Saskatchewan Justice.

Financial Statement

A co-operative must appoint an auditor at its first annual general meeting and each subsequent annual general meeting. A co-operative with fewer than 20 members may resolve, at each annual general meeting, not to appoint an auditor if the members present give their unanimous consent.

Checklist for Incorporating a Co-operative

1. Set Objectives

Objectives ensure that all members understand the purposes of the organization, and they give potential members essential information about the co-operative.

2. Prepare a Business Plan

The business plan is a guide for managing the organization, obtaining financing (if applicable), and measuring progress. It outlines goals and how to achieve them. Some of the purposes are:

- To clearly state goals and to ensure members' agreement;
- To determine whether the goals are reasonable and attainable, so the members are confident about committing their time and investment;
- To identify strategies necessary to achieve the goals;
- To identify facilities, equipment and resources needed to carry out the organization's objectives;
- To identify an organizational structure;
- To decide what shares/capital are required and their sources;
- To provide a guide for completing projects and achieving objectives; and
- To provide a standard for measuring the co-operative's progress.

3. Complete a Name Search

The *Request for Name Search and Reservation* must be submitted to the Corporations Branch, Department of Justice. This confirms the availability of the name you have chosen, and should be done before you submit your incorporation package.

4. Establish Proposed Bylaws

Bylaws ensure equitable treatment for all members, and they are the basis of members' working relationship. Members must agree to operate according to the bylaws.

Two copies of the proposed bylaws must be sent to the Registrar of Co-operatives. They are reviewed at the first general meeting, and amended if necessary before they are approved by the membership.

After this meeting, bylaws may be amended at the annual meeting or a special meeting called for that purpose. A fee is required by the Registrar of Co-operatives when bylaws are amended.

Areas not specified by bylaws are regulated by *The Co-operatives Act, 1996*. Bylaws cannot override the Act unless the Act stipulates the area is "subject to the bylaws".

5. **Complete the *Certificate to Accompany Bylaws***

The bylaws must be accompanied by two copies of this form signed by the president and secretary of the co-operative.

6. **Complete the *Articles of Incorporation***

The articles must be completed according to the instructions attached to the form. Two copies must be submitted.

7. **Submit the Incorporation Fee**

The incorporation fee must accompany the incorporation package.

8. **Post-Incorporation Activity**

When the registrar approves the incorporation, a *Certificate of Incorporation* is issued. This certificate and the approved copy of the *Articles of Incorporation* will be mailed to the co-operative. The organization is now a "legal entity" under its registered name.

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

A CO-OPERATIVE GLOSSARY

Co-operative: A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Most co-operatives are registered in Saskatchewan under *The Co-operatives Act, 1996*, and are operated according to the seven principles of co-operation which were endorsed by The International Co-operative Alliance in 1966 and revised in 1995:

1. Voluntary and open membership,
2. Democratic member control,
3. Member economic participation,
4. Autonomy and independence,
5. Education, training and information,
6. Co-operation among co-operatives, and
7. Concern for community.

Introduction

This glossary has been prepared to assist individuals and groups involved in developing and/or operating co-operatives. The glossary explains various terms and processes mentioned in *The Co-operatives Act, 1996* and *The Co-operatives Regulations, 1998*, plus others that are common in co-operative and general business practice. The glossary is a general guide and should be used with the Act, regulations, and appropriate legal, technical, and managerial advice and support. Comments are welcome and should be directed to a regional development officer (1-800-265-2001) or Saskatchewan Industry and Resources at 787-0190.

Accountant	Qualified individual who carries out bookkeeping, auditing, and other financial reporting and analysis for the co-operative, who is a member of a recognized accounting professional association or approved by the registrar.
Accounts payable	Unpaid (outstanding) bills; money owed to suppliers for goods and services purchased for business operation.
Annual meeting	General meeting which all members are entitled to attend and at which they are entitled to vote. A co-operative must hold an annual meeting each year, and no later than six months after the end of its fiscal year. The first general meeting must be held within four months of the co-operative's date of incorporation.
Annual return	Form required by the Registrar of Co-operatives setting out a list of current directors and other information; must be filed with the registrar within 30 days following the annual meeting.

Articles of Incorporation	Official document required for incorporation; states the co-operative's name, purpose, share structure, directors and incorporators. Appendix B, Form A of *The Co-operatives Regulations, 1998*.
Assets	Entire accumulated property of a co-operative that can be used to pay debts or expenses, including cash on hand and money owed by customers. Assets are those things a co-operative or business owns. See **Current assets**, **Fixed assets** and **Liquid assets**.
Audit	Annual financial examination of a co-operative; conducted by an independent firm of accountants whose report is in a form acceptable to the co-operative's financial institution and its members.
Auditor	Qualified individual (or firm) who prepares the annual financial statement; must be independent of the co-operative; appointed at the co-operative's first annual general meeting and each subsequent annual general meeting. Co-operatives with fewer than 20 members may, at a general meeting, resolve not to appoint an auditor.
Balance sheet	Statement of what a co-operative owns and what it owes at a given time. The difference between its property (including cash) and its debt is shown as its **net worth**.
Board of directors	Body elected by the members to direct the business, policy and operations of a co-op; all members could be on the board, but usually the membership is too large to meet to consider all decisions. See **Executive committee**.
Break-even point	Level of sales or production needed to show neither income nor a loss.
Business plan	Guide for managing the co-operative, setting its organizational structure, determining necessary shares/capital, obtaining financing, identifying necessary facilities and equipment, and measuring progress.
Bylaws	Statement of a co-operative's aims, objectives, and rules of operation. Must be approved by membership and may be amended as necessary. Proposed bylaws must be filed with the Registrar of Co-operatives. See **Certificate to Accompany Bylaws**.
Capital	Total funds invested in a co-operative to enable it to conduct business.
Cash flow	Amount of money left in a given period after all income is accounted for and all cash expenses, after taxes and before depreciation, are paid. See **Negative cash flow**.
Cash poor	Financial condition when a profitable co-operative has little cash on hand (for reasons such as rapid expansion), so it cannot be supported by operating income alone.

Certificate of Incorporation	Legal document issued by the Registrar of Co-operatives when incorporation has been approved. A co-operative legally comes into existence on the effective incorporation date stated on this certificate.
Certificate to Accompany Bylaws	Document certifying the authenticity of bylaws to the registrar; must accompany proposed bylaws when a co-operative applies for incorporation; must be signed by the president and secretary on behalf of the co-operative's board. See **Bylaws**.
Consumer co-operatives	Buy goods in bulk and sell them at competitive prices; examples are retail co-ops, direct charge co-ops, and buyers' clubs.
Co-operation among co-operatives	Co-operatives working together to strengthen and promote the co-operative sector, and to avoid duplication of services. See **Co-operative Principles**.
Co-operative	A legally incorporated organization that is developed, owned and controlled by and for its members. Established to provide members with goods or services, or to make joint use of available resources to improve members' social or economic conditions. Registered under *The Co-operatives Act, 1996*.
Co-operative Principles	Seven guidelines for co-operative philosophy and business practice; endorsed by The International Co-operative Alliance in 1966 and revised in 1995: 1) Voluntary and open membership, 2) Democratic member control, 3) Member economic participation, 4) Autonomy and independence, 5) Education, training and information, 6) Co-operation among co-operatives, and 7) Concern for community. See **Rochdale**.
Co-operative Securities Board	Board consisting of not more than five members appointed by the Lieutenant Governor in Council; reviews and approves the issuing and management of securities by co-operatives, as set out in *The Co-operatives Act, 1996*. See **Security**.
Cost of sales or cost of goods sold	The direct costs of acquiring and/or producing an item for sale, or of providing a service, without counting overhead costs.
Creditors	Persons or organizations (such as suppliers and lenders) to whom money is owed.
Current assets	Cash, plus property to be sold or converted to cash within one year.
Current liabilities	Debts that will be paid within one year.
Democratic control	One vote per member regardless of equity; members have a duty to participate in the co-operative's decision-making process. See **Co-operative Principles**.
Depreciation	Amortization of assets (machinery, buildings, equipment) that wear out or lose value over time.

Disbursements	Money paid out by a co-operative to its suppliers and other creditors to cover operating expenses.
Education	Education of members and elected officials in co-operative principles and practices to ensure understanding of roles and responsibilities. See **Co-operative Principles**.
Employment co-operatives	Provide employment to the worker-members who produce and/or market their goods or services through the co-operative; examples include bakeries, janitorial services, and printing/publishing plants. Also called **worker co-operatives**.
Equity	The difference between the value of assets and liabilities.
Equity capital	The investment in a co-operative that represents member ownership, usually expressed in common shares owned by members.
Executive committee	The board of directors usually delegates some responsibilities, especially operations/management issues, to an executive committee typically consisting of a president, vice-president, secretary and/or treasurer. See **Board of directors**.
Financial co-operatives	Provide a variety of financial services such as savings, investments and loans; examples include credit unions, insurance and trust co-operatives.
Financial statements	Typically consist of a balance sheet, income, expense and operating statements.
Fixed assets	Usually real property or depreciable materials. Buying or selling fixed assets can increase or decrease a co-operative's worth.
Fixed expenses	Predictable and firm expenses that are generally ongoing, such as building and equipment rental, utilities and salaries.
Forecasting	Predicting how many units of product or service will be sold in a given time frame, at what cost to the co-operative, and at what price to the buyer, in order to calculate the financial, material and human resources required to produce the goods or provide the service.
Gross income	The sales income of a co-operative before expenses, depreciation and taxes are deducted. See **Net income**.
Income	The total cash coming from a variety of sources such as customer payments, interest, tax credits, dividends and bonuses.
Income and expense statement	A report detailing the source and amount of all income and the total costs to a co-operative, organized and displayed in sub-headings, that can be compared month to month, season to season, or year to year.

Incorporation	Legal formation of a co-operative; requires submission of an incorporation package (containing the *Articles of Incorporation*, a *Notice of Registered Office*, and a proposed set of bylaws) to the Registrar of Co-operatives. See **Articles of Incorporation** and **Certificate of Incorporation**.
Inventory	Manufactured but unsold stock, on-hand and available for sale immediately.
Invested share capital	The money that shareholders/members put up initially to start the co-operative.
Legislation	See ***The Co-operatives Act, 1996*** for current provincial legislation and the Acts it replaced.
Liabilities	Immediate and future financial obligations to creditors/depositors/ members that expand and contract with sales success of a product or service. See **Current liabilities** and **Long-term liabilities**.
Limited interest on shares	Shares are used to raise capital for a co-operative, rather than to generate a large return on investment for members. *The Co-operatives Act, 1996*, limits interest paid on share capital. See **Co-operative Principles**.
Liquid assets	Cash, plus property that can quickly and easily be sold for cash.
Liquidity	The total value of assets that are readily convertible to cash.
Long-term liabilities	Debts that will not be paid off within one year.
Losses	The amount of money by which expenses exceed income.
Market	The potential buyers of a product or service, determined by geographic, economic, social and other characteristics.
Market analysis	The process of identifying potential consumers of a product or service, the size of the group, and the percentage of the market that could be captured, considering costs and competition.
Marketing strategy	Strategy to make potential customers/members aware of a co-operative's goods and services; includes promotion, publicity, advertising and sales.
Marketing co-operatives	Co-operatives established to support members' efforts to sell their products; examples include agricultural co-operatives.
Member	An individual who has met the conditions of membership stated in the bylaws, and has been accepted as a member by the board of directors of a co-operative.

Membership	Membership in a co-operative must be voluntary and open, without discrimination, to anyone who can use its services. See **Co-operative Principles**.
Negative cash flow	Financial condition when expenses are greater than cash income, and additional funding is needed. See **Cash flow**.
Net income	Income left after expenses, depreciation and taxes are deducted. See **Gross income**.
Net worth	The difference between the value of assets and liabilities of a co-operative.
Operating costs	Expenses incurred in conducting activities ordinary and necessary to the operation of a co-operative.
Patronage refund	Net savings are reinvested in a co-operative or are returned to members as patronage dividends, which may be in the form of cash and/or additional shares in the co-operative. See **Co-operative Principles**.
Producer co-operatives	Co-operatives owned by producers for their mutual benefit; examples include dairy, feeder, film, fishery, handicraft and worker (employment) co-operatives.
Refund	See **Patronage refund**.
Registrar of Co-operatives	Official appointed to oversee regulation and carry out regulatory duties set out in *The Co-operatives Act, 1996*. Maintains Saskatchewan's register of co-operatives. Collects, approves, issues and files legal documents related to the registration, incorporation and operation of co-operatives. The offices of the registrar and deputy registrar are part of the Saskatchewan Justice department.
Registration	Official record in the province's legal registry that an organization has been incorporated as a co-operative.
Revenue	The total income a co-operative receives from all sources.
Request for Name Search and Reservation	Document requesting confirmation that the name chosen for a co-operative is available and may be used. Must be submitted to the Corporations Branch of Saskatchewan Justice before submission of incorporation documents.
Rochdale	A small group of people known as the Rochdale Pioneers established a retail co-operative in Rochdale, Lancashire, England in 1844. The policies and methods of developing and operating their co-operative enterprise became the foundation of current internationally-endorsed principles. See **Co-operative Principles**.
Sales forecast	A prediction of the number of units of product or service a co-operative will sell within a specified time period and at a given price.

Security	Share or debt obligation of a co-operative to its members; includes a certificate stating the nature and amount of the share or debt obligation. See **Co-operative Securities Board**.
Service co-operatives	Provide needed services, generally at improved quality, price and availability; examples include health care, child care, cablevision, farm machinery, housing and transportation co-operatives.
Share	One of the equal parts into which a co-operative's capital is divided.
Start-up	The initial period of operation of a co-operative or other business or service, usually the period before the enterprise begins receiving income.
Start-up capital	The total amount of money, resources and property that a co-operative needs to begin operating and to support it until income is received.
Statement of income	A summary report of all forms of income generated over a specific period including sales, tax credits, dividends and receivables.
Target market	A very specific group of potential customers, usually defined by one or more of: age, lifestyle, gender, socio-economic position, income, geography, needs and interests, et cetera.
The Co-operatives Act, 1996	An Act respecting the incorporation, registration and operation of co-operatives in Saskatchewan.
The Co-operatives Regulations, 1998	Regulations under *The Co-operatives Act, 1996*. Appendices include the following legal forms: *Articles of Incorporation*, *Consent to Act as a First Director*, *Notice of Change of Directors*, *Articles of Amendment*, *Restated Articles of Incorporation*, *Articles of Amalgamation*, *Articles of Continuance*, *Articles of Reorganization*, *Articles of Arrangement*, *Power of Attorney*, *Application to Restore Name to the Register*, *Articles of Revival*, and *Certificate of Dissolution*. Also sets out a fee schedule for the administration of some documents.
Types of co-operatives	Five categories when classified by function. See **Consumer**, **Financial**, **Marketing**, **Producer** and **Service co-operatives**.
Variable costs	Expenses that vary with the volume of good or service provided by a co-operative.
Worker co-operatives	See **Employment co-operatives**.
Working capital	The difference between current assets and current liabilities.

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CONDUCTING EFFECTIVE MEETINGS

When members of a co-operative gather at a meeting, their purpose is to conduct business - to collect information and discuss issues and to make decisions on how these issues will be resolved or addressed. The methods co-operatives choose to carry out these functions will frequently depend on the type and size of the meeting. For example, at an annual general meeting, there will normally be a large number in attendance in a large room and discussion will focus on performance of the co-operative during the previous year. A board, executive or committee meeting will have fewer attending, participants will be sitting at a table, and policies and operational issues will be under discussion. Careful planning and preparation are essential to conducting effective meetings, regardless of type or size. The purpose of this fact sheet is to discuss five components that are essential to conducting effective meetings. These components are: a chairperson, an agenda, a process for making decisions, a well managed discussion and a productive physical set up.

The Chairperson:

The meeting chairperson should be carefully chosen. The chairperson is responsible for providing leadership to the meeting, should be familiar with parliamentary procedure and set an example by consistently conforming to it. As the leader of the meeting, he/she must understand the bylaws and policies of the co-operative, the goals and purpose of the meeting, and he/she must know the participants and motivate them to contribute. The chairperson also has the power to maintain control of the meeting, should any questions about procedure arise or conflict occur.

The chairperson plays the following important roles:

- *Knows Those Attending the Meeting and Helps Them Participate*

Determines the skills and abilities of participants, involves and motivates them in the activities that have been designated to them, checks on their progress and provides guidance and assistance.

- *Plans Ahead*

Assesses the items of business that need to be addressed by the meeting, decides on the options available and then chooses the best option that will complete the task.

- *Prepares for Meetings*

Plans the agenda with the assistance of the secretary and other officers as required and checks on all meeting arrangements.

- *Presides at Meetings*

Presents the rules of order for approval by the meeting, follows the agenda, involves participants in the discussion and ensures that order is maintained.

- *Evaluates Meetings*

Evaluates every meeting to ensure that its objectives have been met.

The Agenda:

An agenda is a list of the items of business to be covered in a meeting. The agenda helps a meeting remain focused, and reduces the possibility of items of business being overlooked or forgotten. The following agenda outline is often used:

1. Call to order
2. Approval of the agenda
3. Reading and approval of minutes of the last meeting
4. Officers' reports, i.e. president, vice-president, secretary and treasurer
5. Committee reports
6. Unfinished or postponed business
7. New business
8. Adjournment

Those invited to a meeting should receive a tentative agenda a few days in advance. The notice period is often determined by the bylaws of the co-operative. Advance notice assists participants by:

- Reminding them of the meeting;
- Ensuring that important items of business have not been overlooked;
- Helping them identify important items and be prepared to discuss them; and,
- Helping them focus on issues at the meeting.

Agendas should also be available for distribution at the meeting.

Decision Making:

At meetings, reaching decisions can be complex and challenging. It is important that participants who wish to speak and express their views have an opportunity to do so. It also is important to proceed carefully, listen to concerns and opinions, and consider alternatives. Thus, when a decision has been made, it is more likely that a larger majority of participants will accept and support it because they have been involved in its creation. When decisions are made too quickly, there is a good chance that someone and his/her views have been left out.

The following process can be used to organize decision making:

1. Define the issue. State it clearly and in writing if necessary.
2. Gather all information relevant to the issue. All pertinent facts and ideas need to be known and meeting participants and the chairperson must distinguish between facts and opinions. A decision may need to be deferred so that additional information can be gathered.
3. List all possible solutions or actions. Encourage discussion to generate new ideas and alternatives.
4. Choose the best possible solution. Use the process of elimination to refine and combine the list in step 3.
5. Make the decision. Formulate a motion which is a formal proposal for action or decision by a meeting, vote on it and then record the results.
6. Evaluate the outcome. This is usually done once a decision has been implemented and can be handled through general discussion or preparation of a written report.

Most meetings use some form of parliamentary procedure such as *Beauchesne's Parliamentary Rules and Forms* or *Robert's Rules of Order* to guide them and to ensure that the traditional principles of a democratic meeting are maintained. These principles are:

- Every participant has rights equal to every other participant;
- The will of the majority is carried out;
- The minority is heard, its rights protected; and,
- Only one topic is considered at a time.

Following are two approaches a meeting can take in making decisions: parliamentary procedure, which is more appropriate because of its formality for larger gatherings such as annual general meetings, and an alternate method, decision making by consensus, for smaller meetings such as those of a board, executive or committee. Though formal use of parliamentary procedure is more appropriate for large meetings, its principles should guide all meetings.

A. Parliamentary Procedure:

For meetings following parliamentary procedure "by the book", following are frequently asked questions and answers on procedure. *Robert's Rules of Order* has been used as a reference.

Question: *What is the proper sequence of steps for presenting and voting on a motion?*
Answer: A motion progresses through nine possible steps:

1. **Moved** - a proposal from the floor, simply stated as "I move that...".
2. **Seconded** - another participant feels the proposal is worth discussing and says "I second the motion".
3. **Stated** - by chairperson or secretary to ensure that wording is recorded properly and everyone understands the intent of the motion.
4. **Discussed** - anyone who speaks must address the chairperson in a courteous tone and must speak only to the motion. The participant making the motion has the right to speak first and should be invited to do so. During the discussion each participant has the right to speak twice on the same motion.
5. **Amended** - changing the wording and/or intent of a motion by adding, deleting or replacing words. NOTE: Each amendment is subject to the same nine steps of presentation and voting as is a motion.
6. **Called** - after sufficient discussion, either a motion is moved, discussed and voted on to end debate and proceed to a vote on the main motion, or a vote is called at the discretion of the chairperson.
7. **Restated** - the motion is read to the meeting to ensure that everyone understands what is being voted on.
8. **Voted** - chairperson calls the following options: "all in favour?", "opposed?" or "abstaining?" and counts the votes for each.
9. **Declared** - results of the vote are announced by the chairperson and recorded in the minutes for future reference by the secretary.

Question: *How many amendments can be made to a motion?*

Answer: There are two kinds of amendments. Those pertaining to the proposed motion are "first rank amendments" (amendment to the motion). Those pertaining to the amendment to the amendment to the proposed motion are "second rank amendments" (amendment to the amendment of the motion). Only one amendment of each rank may be discussed at one time. Any number of amendments may be made to most motions, but "second rank" amendments may not be amended (i.e. an amendment to the amendment to the amendment is not allowed).

Question: *Can a meeting start without a quorum present?*

Answer: A quorum is the minimum number of eligible voters that must be present at a specified meeting (i.e. annual general meeting, board of directors) to conduct business. These numbers are normally designated in the bylaws of the organization. For a board meeting, a quorum is usually a majority of the board. If no quorum is present when the designated starting time of the meeting has been reached, then:

The presiding officer may dismiss the group; or,

The group may agree to proceed informally with the agenda, awaiting ratification of any decisions at a future meeting; or,

The group may discuss any items of interest but make no decisions.

Question: *Who is the presiding officer at meetings?*

Answer: Often the president is designated in the bylaws to chair meetings. Some groups assign the chair to the past-president, a special moderator, or to a different member for each meeting on a rotating basis. This allows the president to participate in discussion on policy.

Question: *After considerable debate, we still are not ready to vote on a motion. What can we do?*

Answer: A motion to table the matter until the next meeting may be appropriate, so that more information can be gathered. A motion to table allows the meeting to put aside the pending question temporarily; or,

The motion may be withdrawn at the request of its mover if no other member objects.

Question: *What happens when someone calls "question" from the floor?*

Answer: Someone calling "question" from the floor indicates that he/she wants the motion put to a vote. Only if the chairperson feels that the motion has had reasonable debate and most members are ready to vote, should he/she call for the vote (i.e. "All those in favour?", etc.). The chairperson may call for a vote as to whether the question may be put before the meeting.

Question: *How should a committee report be handled by a meeting?*

Answer: A motion to "receive" a report implies that the meeting has not committed to its conclusions or recommendations, e.g. the monthly, unaudited treasurer's report.

A motion to "adopt" a report in whole or in part commits the meeting to some or all of the recommendations of the report, and often implies some action to be taken.

A motion to "accept" a report means that the meeting has accepted the report in its entirety.

Question: *Sometimes, while one motion is being considered, an alternative motion might be the better one. How can it be presented?*

Answer: The mover and seconder of the alternative request permission from the chairperson to read the alternative motion. If the chairperson is of the view that the alternative is consistent with the objectives of the meeting and direction of discussion, he/she can allow it to be read. If the chairperson is of the opinion that the alternative is not consistent with the discussion, he/she can deny the mover and seconder permission to read it;

If the alternative is consistent with the objective of the meeting, the mover and seconder of the original motion are asked by the chairperson if they will withdraw their motion;

If the original motion is withdrawn, the alternative motion is moved and seconded; or,

If the original motion is not withdrawn, the mover and seconder of the alternative motion inform the meeting that their motion will be moved if the original is defeated and thus urge the members to vote against the original motion.

B. Rules for Small Group Meetings:

Parliamentary procedure "by the book" provides clear process for large meetings discussing large amounts of business. These rules are very formal and rigid. Participants in a smaller meeting may agree to relax parliamentary procedure.

One approach to ensuring that effective decision making is occurring in such a meeting is to develop motions, and thus decisions, through consensus. Consensus occurs when there is general agreement by the group on the decision being made. This approach also tends to eliminate the complicated amendment procedure which often takes place when formal parliamentary procedure is being used and it encourages maximum participation.

If a small meeting using "relaxed" rules of parliamentary procedure discovers that any of the four traditional principles of a democratic meeting are not being maintained, then more formal processes should probably be reintroduced.

Group Discussions:

Well managed meetings allow all participants to be part of the decision making process. Following are some techniques that the chairperson can use to encourage and support participation and discussion:

- *The chairperson solicits views*

The chairperson might suggest that comments are welcome from the group and actually ask specific individuals to share their views. Participants thus hear a number of abbreviated opinions rather than listening to one or two long speeches.

- *A survey*

After a short discussion, the chairperson asks for a quick show of hands to determine support for proposed ideas. This should help the chairperson determine how to proceed. This encourages participants to express an opinion.

- *Groups*

Groups can be very useful in the decision making process at large meetings and for generating new ideas from participants. The meeting divides into smaller groups, i.e. four to eight people, for a short time to discuss assigned issues. A person is chosen as a recorder to list the conclusions of the group. The groups then report their ideas to the entire meeting. The alternatives that are generated will assist the meeting in resolving issues and making decisions acceptable to all.

- *Brainstorming*

  This is a procedure for generating many spontaneous and diverse ideas which can help to develop alternatives that will assist in resolving the issue being discussed and in coming to a decision. Guidelines for brainstorming are:

  - Don't criticize the ideas of others while brainstorming.
  - Impractical suggestions may trigger practical ideas among other participants.
  - The more ideas, the greater the chance of developing a very good idea.
  - Build on the ideas of others, improve on a previous idea or combine several ideas into one.
  - Choose one person to record all ideas on a flipchart so that everyone can see them and a record exists.
  - After a brainstorming session, critically screen the list of ideas for four or five consistent items or themes. Also, if brainstorming has been done in smaller groups, identify similar issues from the lists of individual groups. Finally, develop this "short list" of ideas into options for decisions.

Conflict

Conflict can arise in meeting discussions. Many assume that conflict is negative but it can be positive if it leads to innovation, positive change or agreement when discussing an issue. It is important to remember that disagreement is necessary to the process of group decision making. The chairperson may have to step into resolving conflict in a meeting in order to reach an acceptable decision. Following are steps that are useful in resolving conflict:

- Recognize that there is conflict and identify the issue causing the disagreement.
- Collect all information relating to the conflict, share it and assess it.
- Propose possible solutions, including the consequences of the proposals.
- Find a mutually acceptable resolution without coercion.
- Carry out the agreement and evaluate its effectiveness, with all parties sharing in the evaluation.

If a meeting does get out of hand, take a short break. When the meeting reconvenes, the chairperson can summarize the discussion up to the point of conflict or have opposing sides summarize their respective positions. The chairperson can then attempt to lead the two opposing sides in negotiating a solution.

Physical Set Up:

Physical location and surroundings are very important to a productive meeting. The number of people attending the meeting will have to be taken into consideration. For example, for an annual general meeting where there will be a large number of people attending, it might be useful to have a microphone located in the centre of the room so that when people address the meeting, everyone in attendance can hear.

Audio visual equipment can enhance a presentation and clarify information that is being presented to a meeting. The type of audio visual equipment required to make presentations needs to be considered in advance and, once again, the size of room and number of people attending the meeting are essential in planning. For a large room with many people attending, the screen will have to be located at a height where all participants can see it.

The length and time of the meeting should always be considered. If participants are travelling a long distance, it may be necessary to schedule the starting and concluding times to allow for travel to and from the meeting. It is also important that arrangements be made in advance for breaks. Breaks can enhance a meeting by providing participants the opportunity to meet on an informal basis and discuss issues that they may not want to discuss with the entire group.

Other physical factors that contribute to a productive meeting include the following: proper lighting, size of room, acoustics, telephone, temperature, ventilation, comfort and position of seating, writing materials, restrooms, coat racks, parking, name tags, refreshments, extension cords and location of electrical outlets.

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CO-OPERATIVE GOVERNANCE:

BOARDS, OFFICERS AND COMMITTEES AND THEIR ROLES AND RESPONSIBILITIES

Co-operatives exist principally to serve the needs of their members. Because it is usually impossible for all members to be involved in directing the affairs of their co-operative on an ongoing basis, the membership elects a Board of Directors to do so on its behalf. Board members are normally elected at the co-operative's annual general meeting. The Board of Directors, in turn, appoints officers and committees necessary to properly carry out these responsibilities.

This fact sheet addresses generally the roles and responsibilities of the Board of Directors collectively, of the officers of the Board and of committees, and their respective responsibilities to members, to the organization and to one another. It should be used with *The Co-operatives Act, 1996*, regulations, and appropriate legal, technical, and managerial advice and support.

Responsibilities of the Board of Directors:

It is important that board members learn and understand their roles and responsibilities early in their term. These include advising on policy, directing the activities and operations of the co-operative and acting as a liaison with the public and the membership, in accordance with *The Co-operatives Act, 1996*, the Articles of Incorporation and the bylaws of the co-operative. Roles and responsibilities include the following elements:

- Stewardship - The Board is responsible for the management of the co-operative's activities, assets and image, and is accountable under the co-operative's bylaws and the Act to the membership for this stewardship. Individual directors and the Board collectively have a duty to direct the co-operative honestly and in good faith, using the care and diligence of a reasonably prudent person.

- Financial Management - The Board and individual directors are responsible for the financial affairs of the co-operative and for its financial transactions. They are responsible for funds which the co-operative raises, accepts and disperses. In overseeing financial management and transactions, the Board and individual directors are obligated to exercise the judgement that a reasonably prudent individual would exercise in regard to his/her own funds. Adequate financial controls which protect assets and limit liabilities are required, as are adequate operating practices and accountability measures.

- Liability - Directors may be liable to the co-operative itself and to outside parties if they fail to:
  - put the interests of the co-operative before their personal interests or the interests of others;
  - be informed about and understand the business and affairs of the co-operative; and
  - use their knowledge and expertise for the benefit of the co-operative.

  Directors may also be held personally liable for:

  - misuse of the co-operative's property;
  - condoning illegal or improper acts by employees, officers or other directors;
  - declaring dividends which render the co-operative insolvent;
  - wages of employees;
  - deductions and premiums such as employees' income tax, unemployment insurance and workers compensation; and,
  - unpaid taxes such as income tax and GST.

Insurance may be available to protect directors from some of these liabilities. Directors may purchase this themselves or it may be provided by the co-operative. However, the insurance will only cover a director who has acted in good faith. For example, a director cannot insure himself/herself against the consequences of stealing from the co-operative. Similarly, a director cannot be indemnified by the co-operative with respect to illegal or dishonest acts.

- Planning, Implementation and Evaluation - The directors are responsible for planning, implementing and evaluating policies and activities which fulfil the purpose(s) for which the co-operative was established as described in the Articles of Incorporation (i.e. its "objects") and the objectives of the members as determined through annual general meetings. The purpose and objectives should reflect the needs of the co-operative and its community, and be translated into the budget or utilization of resources at the disposal of the co-operative. Activities carried out on behalf of the co-operative should be consistent with its established purpose and objectives.

- Communications - Communication within the co-operative, both written and verbal, enables the membership to understand and support the actions of the Board. The Board must keep in touch with members, especially when establishing goals and planning activities. Interaction with individuals and groups outside the co-operative's membership, including potential members, community leaders, other organizations, and various business and government bodies to interpret the co-operative's needs, services and achievements is very important.

Officers and Their Roles and Responsibilities:

As soon as possible after the annual general meeting, the Board of Directors should meet to appoint officers. This is usually done through an internal election process. Under *The Co-operatives Act, 1996*, every co-operative must have a president and a secretary. Co-operatives may have additional officers that are provided for in its bylaws or in a resolution passed by the directors. Normally, the officers include a president, vice-president, secretary and treasurer or secretary/treasurer. The president and vice-president of the co-operative must be directors of the co-operative, unless the bylaws provide otherwise.

The officers should have clearly stated duties and terms of reference. These should be reviewed and updated at least annually to ensure that policy development for and operations of the co-operative are adequately addressed.

A. President:

The president is appointed or elected through an internal election process by the Board of Directors. He/she provides leadership to the Board specifically and the membership generally, and mentors or guides the directors in their own roles and responsibilities. The president's duties also include:

- Planning meetings and preparing agendas. The president presides over all executive, board and general meetings unless someone else is designated as chairperson.
- Assigning responsibilities, tasks and activities to the other officers, to committees and to the co-operative's management, where appropriate.
- Representing the co-operative and acting as its official spokesperson to the public, media, governments, the community and other organizations or individuals on matters pertaining to the business of the co-operative.

Chairperson:

The president is normally designated in the bylaws to chair the meetings of the Board of Directors. In some co-operatives, the chair is assigned to the past-president, special moderator, or another person each time a meeting is held. This allows the president to participate in debates on policy matters and to vote on motions, rather than maintain a position of neutrality necessary in the chair. The responsibilities of a chairperson include the following:

- Planning meetings and preparing agendas.
- Presiding at meetings by establishing the rules of order for the members to follow, following the agenda, involving members and managing discussions.
- Evaluating meetings to ensure that the objectives of the meetings have been met.
- Involving and motivating board members, ensuring they understand their roles and responsibilities, and checking on their progress, but being careful not to undermine their work and authority.

B. Vice-President:

The vice-president assumes the duties of the president in his/her absence by presiding at meetings of the Board of Directors, delegating responsibilities, tasks and activities to other officers and the co-operative's management, representing the co-operative and acting as its official spokesperson. The vice-president often chairs special committees of the Board and performs other duties as may be designated.

C. Secretary:

The secretary is responsible for maintaining a written record of all aspects of the Board's and the co-operative's operations. He/she should have good writing, note taking, summarizing and public speaking skills, as well as knowledge of parliamentary procedure. Typical responsibilities include the following:

- Handling correspondence of the co-operative;
- Collaborating with the chairperson in preparing agendas for board, executive and annual general meetings, and providing advice on meeting procedure;
- Sending meeting notices to directors and members, advising them of the times and places of the meetings;
- Keeping minutes of meetings and having them approved at the next meeting;
- Presenting a summary of correspondence at meetings (the full correspondence being on hand for reference);
- Distributing minutes to members and notifying them of upcoming meetings;
- Keeping a list of all committees and members;
- Keeping an up-to-date membership list;
- Having custody of the seal of the co-operative, if any;
- Making meeting and physical set-up arrangements.

Preparing Minutes:

The secretary is responsible for recording and keeping the minutes of all meetings. Through the minutes, the secretary ensures that a permanent record of the Board's actions has been kept and that an accurate history of the co-operative and its members is maintained. These records provide a sense of continuity to the co-operative as time passes. The minutes are a record of what happened and not the thoughts or feelings of members or officers. They should be written clearly and concisely, in a manner that leaves no room to question the intent of decisions taken by the Board. An absent member should be able to read the minutes and have a clear understanding of the business transacted at the meeting.

D. Treasurer:

The treasurer is responsible for the financial management of the co-operative and is accountable through the Board to the co-operative's members for its financial situation. The treasurer's duties include the following:

- Preparing the co-operative's budget, usually in collaboration with a finance committee and staff;
- Handling financial transactions and exercising signing authority on behalf of the co-operative;
- Preparing financial statements and reporting on the co-operative's financial position to the board and the membership;
- Recommending financial policies and procedures for the co-operative.
- Ensuring that the co-operative's year-end financial statements are audited by an external auditor. This is normally done in advance of the co-operative's annual general meeting.

E. Secretary/Treasurer:

The role of the Secretary/Treasurer combines the duties of the two positions into one.

Committees:

When the amount of work required to administer a co-operative grows beyond what the Board of Directors can handle itself, the Board may decide to appoint committees to which tasks can be assigned. There are two types of committees, standing and special. Standing committees function more or less on a permanent basis to handle ongoing requirements. Examples include administration, finance and nominating committees. Special or ad hoc committees are normally appointed on a short term basis to study unique issues or items of business, report findings, make recommendations on actions to be taken to the Board, and/or implement board decisions. The number and types of committees can vary from co-operative to co-operative.

Committees must include three directors in order to exercise powers delegated to them by the Board. Those with fewer than three directors may only make suggestions to the Board. Committees may also include representatives from the membership, management and staff. All committees should have written terms of reference. For standing committees, these should be included in the bylaws. For special or ad hoc committees, terms of reference should be set out in the motions that created the committees.

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CORE FUNCTIONS AND PROCESSES OF CO-OPERATIVE GOVERNANCE

A co-operative is a business which is owned and democratically controlled by its members for the purpose of providing goods and services to members and patrons. Co-operative ownership influences purpose, control structure and business practices, and makes co-operatives significantly different from sole proprietorships, partnerships and investor-owned corporations. Consequently, co-operatives are governed by separate legislation. *The Co-operatives Act, 1996* sets out rules and guidelines on the corporate governance of co-operatives. The purpose of the Act is to protect the interests of members, and to provide a basic legal framework within which co-operatives can organize and operate.

The goal of this fact sheet is to review the core operating functions necessary to maintain a co-operative governance structure, and to provide guidance in complying with co-operative legislation and regulations. This document has been prepared to give general guidance to directors, officers and managers of co-operatives, and should be used with *The Co-operatives Act, 1996* and regulations, and appropriate legal, technical, and managerial advice and support.

General Requirements

Meetings

Membership Meetings

Within four months of incorporation, a co-operative must hold its **first general meeting**. All members are entitled to attend and vote at this meeting. Normal business includes adoption of bylaws, election of directors, and appointment of an auditor.

A co-operative must hold an **annual general meeting** each year no later than six months after its fiscal year end. A suggested agenda includes:

- Minutes of the previous annual meeting;
- Reports by the president, treasurer, manager and committees;
- Auditor's report;
- Election of directors;
- Resolutions;
- Amendment of bylaws; and
- Any other business that the board or membership want to raise.

Subject to the bylaws and the Act, the directors may, at any time, call **other general membership** meetings to conduct the general business of a co-operative. The directors may also call a special meeting of members. A special meeting must be held on receipt of a written request which specifies the purpose of the meeting and is signed by members as follows:

- For a co-operative with 1,000 or more members, the lesser of 5 per cent of the membership or 300 members, but in no case fewer than 100 members;
- For a co-operative with fewer than 1,000 members, 10 per cent of the membership; and
- For a co-operative with a delegate structure, at least 25 per cent of the delegates.

A special meeting may only deal with the matters specified in the notice of meeting.

Board of Director Meetings

As soon as possible after incorporation, an **interim board meeting** should be held so directors can discuss day-to-day operating policies, appoint officers, establish banking and financial arrangements, et cetera. **Regular board meetings** are normally held on an established schedule, often monthly, with pre-determined dates being desirable. The president may call a meeting of directors at any time. The president must call a directors' meeting within two weeks of receiving a written request from at least two directors, unless the articles or bylaws of the co-operative provide otherwise.

Committee Meetings

When the amount of work required to direct the affairs of a co-operative grows beyond what the board of directors can handle, the board may decide to appoint committees to which tasks can be assigned. There are two types of committees: standing and special. Standing committees function more or less on a permanent basis to handle ongoing requirements. Examples include administration, finance and member relations committees. Special or ad hoc committees are normally appointed on a short term basis to study unique issues or items of business, report findings, make recommendations to the board on actions to be taken, and/or to implement board decisions. Numbers and types of committees can vary from co-operative to co-operative.

Notices and Quorums

Notice of meetings is required unless the articles or bylaws provide otherwise. A co-operative must provide a period of notice and means of giving notice of membership meetings that is sufficient to ensure each member, delegate or preferred shareholder has reasonable opportunity to attend the meeting and exercise his or her right to vote.

This provision allows co-operatives to tailor the length of notice and manner of giving notice to their unique circumstances. For example, co-operatives with small memberships may notify members by telephone or hand delivery, and may be able to call meetings with minimal notice.

Most co-operatives state in either their bylaws or policies that notice for all general meetings must be given no fewer than 10 days in advance, and also require that notice be mailed to all members entitled to attend, or inserted in at least two issues of a newspaper circulated in the area served by the co-operative, and posted in a place that is prominent and accessible to members.

The notice of any special meeting is required to specify the reason the meeting is being called. Requirements for meeting location, notice and timing for board meetings are determined by boards or set out in the bylaws of individual co-operatives.

A **quorum** is the fixed minimum attendance necessary for the transaction of business at a meeting. For annual general meetings or special meetings of the membership, a quorum is the lesser of 15 members or 10 per cent of the membership. For a meeting of delegates, a quorum is 50 per cent of delegates. A quorum for meetings of the board of directors is a majority of directors. The bylaws of a co-operative may provide for a quorum that exceeds these requirements.

Co-operative Documents and Record Keeping

A co-operative is required to prepare and maintain certain organizational records at its registered office or at another place in Saskatchewan designated by the directors. This includes the registered copies of a co-operative's Articles of Incorporation and bylaws, amendments to these documents, and any other corporate documents. The minutes of all meetings of the membership, directors and committees should also be kept at this location.

It should be noted that any change of address to the registered office must be filed with the Registrar of Co-operatives within 15 days of the change. If the registered office is named in the bylaws, the bylaws must also be amended and these amendments filed with the Registrar.

Members, their agents and their legal representatives are entitled to examine and obtain copies, without charge, of all of these records and documents with the exception of the minutes of meetings of the board of directors. Following are the key attributes of these documents.

Articles of Incorporation

Articles of Incorporation set out a co-operative's legal name, financial structure, number of directors, purpose or objectives, and any restrictions on business. The articles may only be amended by a special resolution which requires a majority of at least two-thirds of the votes cast at a general meeting. Members must receive not fewer than 10 days' notice of the intention to propose the special resolution at such a meeting. Proposals to amend the articles may be presented by the board or by any member of the co-operative. Amendments must be filed in the prescribed form together with the prescribed fee, and approved by the Registrar.

Bylaws

Bylaws set out the basic rules and guidelines, within the Act, under which a co-operative is governed and operated. Except where the Act or the bylaws provide otherwise, members may, by simple majority at any annual or special meeting called for this purpose, make, amend, repeal, replace or confirm any bylaws. Bylaws come into effect when two copies of the bylaw, certified to be true by the president and secretary of the co-operative, are filed with the Registrar of Co-operatives with the prescribed fee, and approved by the Registrar.

Minutes

Minutes are the permanent record of the decisions and actions undertaken at all meetings of a co-operative. Co-operatives are required to maintain minutes of all membership, board and committee meetings. Minutes should reflect decisions, not opinions, and be written so that an absent member reading them can have a clear understanding of the business conducted at the meeting. The secretary or secretary/treasurer is normally responsible for recording and maintaining minutes of all meetings.

The following guidelines suggest a format which will aid the secretary in preparing the minutes.

Introduction:

- *The type of meeting (board, special, annual, et cetera);*
- *The name of the co-operative;*
- *The date, time and location of the meeting;*
- *For board and committee meetings, the names of members present and absent;*
- *If the president and/or secretary was absent, the substitute's name; and*
- *Any comments or actions arising out of the minutes of the last meeting.*

Body:

- *The agenda and items of business therein. The agenda can then be attached to the minutes to form a complete package.*
- *All motions except ones which were withdrawn. When recording a motion, include the exact wording of the motion as adopted or otherwise disposed of; the disposition of the motion, and any primary or secondary amendments; and the name of the person making the motion.*
- *All points of order and appeals, whether sustained or lost, and reasons given by the chair for rulings.*

Conclusion:

- *The time of adjournment; and*
- *The date and time of the next meeting.*

Minutes should be signed by the secretary or the person who took the minutes, and the chairperson.
When a director is not present at a meeting of directors or a committee of directors at which a vote on a resolution is taken, the absent director is considered to have cast an affirmative vote and consented to the resolution unless, within 14 days after becoming aware of the proceedings, the director delivers or sends by registered mail a written dissent to the registered office of the co-operative.

The secretary, on receiving the written dissent, shall certify the day, time and place it is received and keep it with the minutes of the meeting at which the resolution was passed.

Other Documents

Other documents that should be retained at the registered office include a register of directors setting out the names, addresses and occupations of all persons who are or have been directors of the co-operative and the dates on which each person became and ceased to be a director; a register of members stating their names arranged in alphabetical or numeric order and their latest address known to the co-operative; and a register of shareholders with their names arranged in alphabetical or numeric order, the number and type of shares held, and their latest address known to the co-operative. In addition, copies of every certificate and order issued by the Registrar to the co-operative (such as the certificate of incorporation) should be retained at the registered office.

Financial Requirements, Records and Reporting

To maintain a successful business operation, a co-operative must maintain accurate records of its financial operations, monitor and evaluate its past performance, and develop and implement budgets. A co-operative must comply with all financial requirements set out in *The Co-operatives Act, 1996.*

Financial Records

Accurate and timely financial records are essential to the successful financial management of any co-operative. These include records of all revenues and expenditures, cash flow, and capital purchases. These records should support the preparation of a monthly financial statement which should include comparisons to budget projections for review by the board.

Budgets

A budget is a financial planning and management document that projects future financial requirements and performance of a co-operative. Normally, co-operatives prepare three types of budgets: operating, cash, and capital.

Operating budgets are usually developed for each fiscal year, and project revenue, expenditures and savings or losses. To obtain maximum benefit from an operating budget, co-operative boards and management should compare actual income and expense statements against budgeted projections on a regular basis throughout the year. When actual results fall short of projections, corrective action should be taken.

Cash budgets are also prepared at the beginning of each fiscal year. The cash budget predicts monthly bank balances using estimated receipts and expenses. This is important because the timing of revenues and expenses do not always coincide, and cash budgets provide a basis for identifying borrowing requirements or opportunities for investing short term surpluses of operating capital.

Capital budgets are developed to support long term planning and management of a co-operative. These budgets address the co-operative's requirements for land, buildings, equipment and other capital purchases, and should include an assessment of costs and benefits of all proposed capital expenditures together with an analysis of alternate investments or strategies.

Potential sources of capital include retained savings, additional member equity, member loans, sale of securities, and other forms of financing.

Financial Reporting

Appointment of an Auditor

At the first general meeting of a co-operative and at each succeeding annual meeting, members must appoint, by ordinary resolution, an auditor who is independent of the co-operative and is a member of a recognized accounting professional association or approved by the Registrar. A vacancy in the position of auditor may be filled by the board until the next annual general meeting.

Co-operatives with more than 300 members are required to have an audit committee comprised of at least three directors. This committee is responsible for reviewing financial records and all statements prepared in conjunction with the audit.

Some co-operatives, in unique circumstances and subject to the provisions of the Act, may resolve not to appoint an auditor.

The Audit and Audit Report

After the fiscal year-end of a co-operative and before its annual meeting, the auditor must examine all records relating to its financial activities, report on the accuracy and correctness of these records, and prepare a statement of the co-operative's financial position including statements of revenue, expenditures and surplus or losses, plus a balance sheet setting out assets, liabilities, members' equity and/or reserves.

Annual Return

Each year, about 30 days before a co-operative's year-end, the Registrar will send an annual return form. The form, requesting the names of the directors, officers, auditor and other information, must be filed with the Registrar within 30 days after the annual meeting together with a copy of the co-operative's audited financial statement that has been signed by one director. The required filing fee must also be paid. Co-operatives whose articles or bylaws provide that earnings may be distributed to members are not required to file financial statements.

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FINANCING AND FINANCIAL MANAGEMENT FOR SASKATCHEWAN CO-OPERATIVES

When individuals join a co-operative, they become joint owners of a democratically-controlled organization established to meet members' shared economic and social needs.

The business structure and operation of a co-operative and a traditional business have similarities, and both must have a sound financial structure and adequate finances for successful operation. However, they also have three important differences: purpose, the way financial surplus or profit is used or distributed, and the ownership and control structure.

This fact sheet provides an introductory explanation of the basic financial structure and operation of a co-operative. We recommend that you obtain additional information from other sources, and consult *The Co-operatives Act, 1996* and *The Co-operatives Regulations, 1998* for all purposes of interpretation and application of the law.

Co-operative Principles

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. The *Statement on the Co-operative Identity*, which sets out the seven core co-operative principles, was adopted by the International Co-operative Alliance and is widely accepted by the co-operative movement throughout the world. These principles are the guidelines by which members put their co-operative values into practice. The seven principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community.

Benefits for Members

The basic objectives of co-operatives revolve around mutual self-help to benefit members and the community, while the primary goals of privately-owned businesses is profit. As co-owners of a co-operative, members are involved in the enterprise and they control its activities. Their investment in a co-operative can yield both economic and social returns and benefits.

Members may receive a reasonable return on their financial investment, plus other benefits which vary according to the type of co-operative but may include access to goods and services that might not otherwise be available, markets for their products, jobs, and improvements to their social and economic well-being.

Return on investment extends beyond the members. Communities, through local residents, businesses and organizations, invest in their co-operatives and the co-operatives, in return, make substantial contributions within their communities through local employment, business activity, economic development, and participation in community affairs.

Concern for communities is the seventh co-operative principle, which states "Co-operatives work for the sustainable development of communities through policies approved by their members."

Start-up Costs

To start a co-operative, individuals must have clear goals and objectives. Development of a successful co-operative will require both a strong organization and business plan.

Members must have the capacity to finance the start-up costs for the organization's development, feasibility studies and business plans. Money will be needed to cover the costs of the initial planning and development, incorporation, start-up, and ongoing operation of a co-operative.

When the decision is made to establish a co-operative, initial development costs will be incurred even before the co-operative is incorporated. These costs will be incurred as a group examines and assesses its ability to develop, finance and operate the proposed co-operative. Such costs can include fees for legal and financial advice, and consultants' services.

Additional costs may occur if a decision is made to promote a proposed co-operative through methods such as advertising, printed material and public meetings.

Developing co-operatives may choose to hire someone to conduct an independent **feasibility study**, which can give an objective assessment of a project's viability.

The factors studied will vary, depending on the type of co-operative being considered, but can include market opportunities, competition, start-up costs, capital costs, production costs, investment requirements, potential return on investment, personnel requirements, and management requirements and availability. A feasibility study should state whether the project is feasible and, if so, recommend how to proceed and describe the organizational steps needed to establish a successful co-operative business or service.

Having determined that a project is feasible, the decision may be made to hire a consultant to prepare a comprehensive **business plan**, which should clearly identify the purpose, organizational structure and financial structure of the co-operative. The business plan should include a capital financing plan and a marketing plan.

A **capital financing plan** identifies the amount of money needed to finance a project as described in the feasibility study, and potential sources of the necessary capital. A **marketing plan** analyzes the potential market for the co-operative's goods and services.

Financial costs will also be incurred when the co-operative is incorporated. Fees must be included when the incorporation package is submitted to the Department of Justice. The incorporation package includes the *Articles of Incorporation*, a *Notice of Registered Office* and a proposed set of bylaws. When a co-operative has been incorporated, money will be needed to start operations. Start-up capital expenses will vary, depending on the type of co-operative, but can include the costs of building rental or renovation, office furniture and supplies, tools and equipment, machinery and vehicles, insurance, and initial stock. When the co-operative is operating, working capital will be needed to conduct its day-to-day business. Ongoing costs can include the mortgage or lease, utilities and building maintenance, taxes, insurance, stock and equipment, product packaging and transportation, equipment maintenance, and wages.

A **first-year operating plan** is essential for a new co-operative, and should include a cash flow projection detailing the amount and timing of all anticipated expenses and revenue (income) for that year. Within the first year of operation, it should be possible to identify a general pattern of cash flow and surpluses generated in a given period after all income is accounted for and all cash expenses (after taxes and before depreciation) are paid. The decision may be made to develop a **capital reserve** (a financial cushion) to help cover costs during periods when expenses are expected to be high. A three- to five-year operating plan should be developed, reviewed annually, and revised as needed.

How Co-operatives are Financed

Co-operatives need money to start operations, to expand and diversify, and to modernize facilities. When the amount of money needed for the project has been determined, the co-operative should identify the best sources of capital and the desired amount from each source.

These sources include common and preferred shares, other types of securities, member loans, and loans from financial institutions. All types of securities issued by co-operatives (except those exempted by the Act or regulations) must be approved by the Co-operative Securities Board. The Board is a regulatory body created under *The Co-operatives Act, 1996*, to oversee and regulate the issuance of securities by co-operatives.

A **prospectus** is necessary before a co-operative may sell securities unless an exemption is granted by the Co-operative Securities Board. The purpose and intent of a prospectus is to provide potential investors with sufficient information which, on reading, will permit them to make informed decisions on the securities being offered by a co-operative. When the prospectus has been approved by the Co-operative Securities Board, it must be given to all prospective buyers of the co-operative's securities.

Common shares include any share issued by the co-operative to which the Articles and bylaws attach no special preferences. They are sold only to members, and usually a member must purchase a defined number as a condition of membership as stated in the bylaws. Membership gives the person the right to one vote regardless of the number of shares held.

The number of common shares that a co-operative may issue, and their par value (fixed price), is stated in its Articles. Members may resell their common shares only to the co-operative, and at a price not greater than the par value, unless the co-operative's bylaws provide otherwise.

Historically, the amount of equity raised by co-operatives through shares sold as a condition of membership has been minimal, usually less than $1,000 per member. Today, co-operatives emerging in sectors such as agricultural value-added processing are raising substantial proportions of their total capital requirements in the form of equity linked to membership.

These co-operatives generally require members to purchase common shares that provide rights and obligations to deliver a prescribed amount of produce, livestock, et cetera to the co-operative for processing. Membership is limited to the availability of delivery rights/obligations. More information is provided in the *New Generation Co-operatives for Agricultural Processing and Value-Added Projects* fact sheet and development guide produced by Saskatchewan Industry and Resources.

As members, common shareholders are entitled to receive **patronage dividends** that may be allocated by the Board of Directors. The amount of this dividend is in proportion to the amount of business the member does with the co-operative. Patronage dividends can be paid in cash or in the form of additional shares. In a worker co-operative, patronage dividends are normally based on hours worked and, in effect, increase the members' wages.

Dividends or interest may also be paid on common shares but at a rate not higher than the rate prescribed in the regulations under *The Co-operatives Act, 1996*. Earnings are distributed to members who are common shareholders.

The Act also provides for co-operatives to issue **preferred shares**. These shares normally have special preferences, rights, conditions and restrictions. They generally have a defined rate of interest and receive dividends in preference over common shares. Preferred shares normally provide members with no additional voting rights. However, the bylaws of a co-operative may provide for preferred shareholders to elect a defined number of directors in the event that the co-operative is in default of any term or condition of the share issue.

Preferred shareholders are entitled to vote separately as a class with respect to the sale, lease or exchange of all or substantially all of the property of a co-operative other than in the ordinary course of business where preferred shareholders are affected in a way that is different from ordinary shareholders. In such cases, preferred shareholders may vote on the basis of the number of shares they hold.

Other securities, including bonds and debentures, may also be issued by a co-operative and sold to members and non-members. They provide holders with no voting rights or special privileges.

Debt capital includes lines of credit, loans and mortgages from financial institutions. This financing method provides necessary capital at defined rates of interest and terms for repayment. Interest rates and payments are generally fixed and do not relate to the co-operative's economic performance. The co-operative may have to offer security of real property (such as the mortgage on land or equipment) to obtain the loan, and the cost of borrowing may reduce earnings and patronage dividends to members.

Members may be required, or volunteer, to lend money to the co-operative to help finance capital purchases or operation. The terms of these loans are set by the Board or Directors. Compulsory loans must be approved by members.

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

ARTICLES AND BYLAWS FOR SASKATCHEWAN CO-OPERATIVES

Articles and bylaws are agreements between a co-operative and its members. They define a co-operative's basic financial and organizational structure, and set out the rules by which it is governed. *The Co-operatives Act, 1996*, hereinafter referred to as the 'Act', requires that every Saskatchewan co-operative must have established Articles of Incorporation and bylaws in order to be incorporated in the province.

This fact sheet is a guide for directors, members, and managers of existing and developing co-operatives. It explains how to develop and amend Articles and bylaws to tailor them to the unique needs of an individual co-operative and to meet legal requirements.

This publication provides general guidance and should be used in consultation with *The Co-operatives Act,1996* and *The Co-operatives Regulations,1998* (provincial legislation) plus appropriate legal, technical and managerial advice and support. We also recommend *A Co-operative Glossary* and *International Co-operative Alliance: Statement of the Co-operative Identity*, two fact sheets in the series produced by Saskatchewan Industry and Resources.

The following items are addressed in this publication:

Articles of Incorporation
Bylaws

A. Required Bylaws

1. Membership
    - Qualifications for Membership
    - Withdrawal of Members
    - Termination of Membership
    - Joint Membership
    - Classes of Membership
2. Share Capital or Membership Fee Requirements
    - Co-operatives with Share Capital
    - Co-operatives Without Share Capital
3. Board of Directors
    - Qualifications of Directors
    - Election of Directors
    - Term of Office
    - Removal of Directors
    - Appointment of Officers
4. District Boundaries
5. Delegate Structures
6. Dissolution

B. Optional Bylaws

1. Voting
2. Distribution of Surplus
3. Amendment of Bylaws

C. Assembling Bylaws

Articles, bylaws and policies form a hierarchy within the internal regulatory structure of a co-operative. Articles, at the top of the hierarchy, require a special resolution to be approved or amended. Bylaws, at the second level, require approval by ordinary resolution. Policies, at the third level, generally are developed and amended by the Board of Directors. This hierarchy is important when you decide which issues, other than those required by the Act, should be addressed in the Articles, bylaws or policies of your co-operative.

ARTICLES OF INCORPORATION

Articles of Incorporation are the instrument by which a group of individuals enter into an agreement to form a co-operative. Articles are developed, approved, and signed by the incorporators of a co-operative and must be filed with the Registrar of Co-operatives in the prescribed form, with required fees. The Registrar, subject to approving the Articles and bylaws, will issue a Certificate of Incorporation.

Articles may only be amended by special resolution which requires a majority of at least two-thirds of the votes cast at a general meeting at which there has been not less than 10-days notice provided to members of the intention to propose the special resolution.

The Act requires that Articles include the following:

1. The Name of the Co-operative: A co-operative's name must include the word "Co-operative" (or "Cooperative"), and the last word must be "Limited", "Ltd.", "Limitée" or "Ltée". The name must not be the same as or similar to that of another co-operative previously or currently registered in Saskatchewan unless approved by the Registrar.

2. Share Capital: When a co-operative is organized with share capital or equity, the Articles must state the par value (fixed price by which shares are sold or repurchased by the co-operative) and number of shares to be issued. If a co-operative has two or more classes of shares, the Articles must state the designation, par value, special preferences, rights, conditions, restrictions, limitations and prohibitions attached to each class.

3. No Share Capital: If a co-operative is established without share capital, the Articles must contain a statement that the interest of each member is the same as that of every other member.

4. Number of Directors: The Articles should state the minimum and maximum number of directors. Unless the number of incorporators or members is less than six, a co-operative is required to have a minimum of five directors.

5. Names of First Directors: The Articles must include the names in full, and place of residence of the first directors.

6. Objects: The Articles should contain a concise statement (usually one paragraph) describing the objects or purpose for which the co-operative is established. This paragraph usually begins with the wording "On a co-operative basis. . ."

7. Restrictions: The Articles may include a statement outlining restrictions, if any, on the business of the co-operative. If a co-operative includes a restriction, any involvement in the restricted activity is prohibited.

Articles may also include any provisions permitted by the Act to be set out in the bylaws.

BYLAWS

Bylaws set out the basic rules and guidelines, within the Act, by which a co-operative governs itself. Bylaws are first developed, ratified and registered by the incorporators of a co-operative. They must be certified by the president and secretary, and filed with the Registrar along with the Articles as part of fulfilling the regulatory requirements for incorporation.

This includes payment of any required fees. Bylaws must also be ratified by a simple majority vote of the members present and voting at the first general meeting of a co-operative. This meeting must be held within four months following incorporation.

Future changes to the bylaws also require a simple majority vote of members, provided that notice of any proposal to make such an amendment was forwarded to each member with the notice of meeting. If notice was not provided, an amendment may be presented but a two-thirds majority is required for passage.

The Co-operatives Act, 1996 prescribes that co-operatives must have bylaws that address the following key issues:

1. Membership

    a) qualification of members
    b) joint membership
    c) withdrawal of membership
    d) termination of membership
    e) where required, provisions relating to classes of membership

2. Financial Requirements of Members

    a) share capital contributions, member loans, et cetera
    b) membership fees

3. Board of Directors

    a) qualification
    b) election
    c) term of office

4. District Boundaries: if applicable, procedures for establishing districts

5. Delegate Structures: if applicable,
    a) election
    b) power and duties
6. Dissolution: provisions relating to the distribution of property upon dissolution of the co-operative

These items reflect the core legal components under the Act, and are key to establishing a co-operative's organizational and governance structure. Although some issues, such as districts or classes members, may not apply to all co-operatives, the above list provides a basic framework for developing bylaws. In addition to these items, members of a co-operative may pass bylaws on any matter, provided it is consistent with the Act.

Bylaws provide the legal framework for a co-operative to operate effectively and to meet the objectives of its members. When members develop bylaws, they must consider carefully the effect of any bylaw on the co-operative's organization and operations. The following section addresses issues to be considered in developing bylaws on areas required by the Act.

REQUIRED BYLAWS

Membership

Membership is core to any co-operative. The International Co-operative Alliance's *Statement of Co-operative Identity* includes "Voluntary and Open Membership" as its first principle. This principle further states that membership in co-operatives is "open to all persons able to use their services, and to accept the responsibilities of membership without gender, social, racial, political or religious discrimination."

Membership provisions in *The Co-operatives Act, 1996* generally adhere to this principle. The Act specifically provides that co-operatives must include bylaws regulating the qualification, withdrawal and termination of membership.

Qualifications for Membership
The following five factors should be considered in determining who is qualified for membership in any co-operative and in developing bylaws to address this issue:

1. Ability to use the services of the co-operative;
2. Capacity of the co-operative to provide service;
3. Payment of any fees or purchase of any shares required as a condition of membership;
4. Agreement to abide by the bylaws and accept responsibilities of membership; and
5. Approval by the Board of Directors of the co-operative.

There are generally two approaches to formulating bylaws relating to the qualification of members. The first is to formulate a bylaw stating specifically who is eligible to apply for membership in the co-operative.

Example:
Membership in the co-operative shall be open to all tomato producers in Saskatchewan willing to deliver tomatoes for processing by the co-operative.

To become a member of the co-operative, a person must apply in a form prescribed by the Board of Directors, and the application must be approved by the board and recorded in the minutes.

A second approach is to simply define eligibility as being able to use the services of the co-operative. Co-operatives which do not have special requirements of members (such as retail and community service co-operatives) generally take this simpler approach.

Example:
Membership in the co-operative shall be open to anyone who can use the services of the co-operative.

To become a member of the co-operative, a person must apply in a form prescribed by the Board of Directors and the application must be approved by the board and recorded in the minutes.

This approach may also be used by co-operatives with more specialized membership but, in such cases, this approach delegates to the board greater authority in approving applications for membership.

In addition, to support the implementation of its bylaws on membership, a co-operative should have standardized membership application forms and policies and procedures for processing them. Applications should clearly state all conditions relating to membership, including a statement that the member agrees to abide by the bylaws of the co-operative and accepts responsibilities of membership.

Withdrawal of Members

Co-operatives, as voluntary organizations, must also have bylaws relating to the withdrawal of members. These bylaws should address three issues:

1. The requirement of a member to provide notice;
2. The period of notice required; and
3. The maximum time allowed for the co-operative to repay equity or other money credited to the withdrawing member.

The Act sets out that this term of repayment may not be longer than five years except in the case of equity that has been allocated in the form of patronage dividends.

Example:

A member may withdraw from the co-operative by giving to the secretary of the co-operative __ days notice of intention to withdraw.

The board, by resolution, may accept any application to withdraw upon shorter notice.

The co-operative shall pay all amounts held to the credit of a member within ___ days (months, years) of the board's acceptance of the member's application to withdraw.

Termination of Membership

Bylaws must also set out the rules respecting the termination or retirement of a membership.

The Act provides that either the Board of Directors or the members of a co-operative may order the termination of a membership and lists the issues that must be addressed in bylaws relating to this issue, including:

1. The process by which a termination of membership may be made;
2. The amount of notice required to be given to the member;

3. The process by which a member may appeal; and
4. The requirement for repaying the member any share capital or other amounts held to their credit.

Either the board or members, through a vote, may order the termination of a membership, so two bylaws are required.

Examples:

Termination of Membership by the Board of Directors:

The directors may, by at least a two-thirds vote at a meeting duly called, order the retirement of a member from the co-operative.

The secretary of the co-operative shall, within ten (10) days from the date on which the order is made, notify the member in writing of the order.

The member may appeal the order to the next general meeting of the co-operative by giving written notice of the intention to appeal to the secretary within thirty (30) days from the date he received notice. Where the member makes the appeal, a two-thirds majority of the members present and voting shall be required to rescind the order.

If the retirement of a member is ordered in accordance with the provisions of this bylaw, the co-operative shall pay to the member all amounts held to his credit within ___ days (months) of the member's retirement.

Termination of Membership by the Members of a Co-operative:

The members may terminate the membership of a member where:

1. The member has received at least ten (10) days notice of the general meeting at which his membership is to be considered;
2. The termination is approved by at least two-thirds of the members who are present at the general meeting and cast vote; and
3. If the retirement of a member is ordered in accordance with the provisions of this bylaw, the co-operative shall pay to the member all amounts held to his credit within ___ days of the member's retirement.

When the termination of a membership is initiated and voted on by the general membership, there is no second or further appeal by the member to the general membership.

The Act requires that within one year of the termination of a membership, the co-operative will purchase all shares held by the member and repay any other monies held by the co-operative.

The Act does not require the co-operative to provide a reason for ordering the termination of a membership but it does, subject to certain limitations, permit a person whose membership has been terminated to appeal to the Registrar of Co-operatives.

Joint Membership

A co-operative must also have a bylaw respecting joint membership. Joint membership refers to situations where two or more persons (usually members of one family) are party to a single membership.

Joint membership does not apply to organizational memberships because organizations or corporations are considered to have the legal status of a person, and therefore apply for membership in the same manner as an individual person.

If a co-operative does not wish to permit joint membership, it must state this in its bylaws.

Example:

There shall be no joint membership in the co-operative.

A co-operative that permits joint membership must set out the conditions in which two or more persons may apply for joint membership, including the rights and obligations of each party to the joint membership with respect to voting and other issues. The Act provides that, unless the bylaws state otherwise, each of the joint members is entitled to vote and to exercise full rights and responsibilities of membership, except that only one joint member may be a director at any one time. Joint members are equally liable for all charges imposed or payable with respect to membership.

Example (single vote):

Two or more persons may apply for joint membership in the co-operative. Parties to a joint membership have one vote and shall determine which party to the membership shall cast the vote. Only one party to the joint membership may hold office as a director at any one time. Each party to a joint membership shall have the right of survivorship.

Example (multiple voting):

Two or more persons may apply for joint membership in the co-operative. Each party to the joint membership shall have one vote, except that only one party may be hold office as a director at any one time. Each party to a joint membership shall have the right of survivorship.

Joint survivorship refers to the right of each party of the joint membership to continue as member in the event of the death or withdrawal of one of the other parties.

Classes of Membership

Most co-operatives have a single class of members, each having the same qualifications, rights and obligations. However, some choose to divide their members, who are shareholders, into different classes. The bylaws must set out the qualifications and terms of membership in each class and the means of transferring from one class to another. For example, a food processing co-operative could be owned by a combination of agricultural producers, employees and other investors, each group forming a class with different qualifications for membership, equity financing obligations, and rights regarding distribution of the surpluses of the co-operative.

Example:

There shall be three classes of members - producer members, employee members and investor members -with the following rights and qualifications:

Producer member: *Must be an individual engaged in the production of _______ who has purchased ________ shares in the co-operative and signed a contract to deliver __________ units to the co-operative.*

Investor member: *Must be an individual who has purchased at least _______ preferred shares in the co-operative.*

Employee member: *Must be an employee of the co-operative who has purchased at least ________ shares in the co-operative.*

Applications for membership must state the class of membership for which the individual is applying. A qualified member may apply to the Board of Directors to convert his membership from one class to another class.

Share Capital or Membership Fee Requirements

The section on Articles of Incorporation in this publication addresses how a co-operative may be established with or without share capital. The bylaws must set out specific requirements respecting the purchase of shares, payment of fees or any other financial requirement that is a condition of membership.

Co-operatives with Share Capital

The amount of shares or equity investment required of each member relates directly to the capital requirements of the particular co-operative. Co-operatives require capital to purchase assets and to initiate operations. These can be funded by share capital contributions, member loans, preferred shares, debentures, and loans from financial institutions. When establishing a co-operative, the incorporators must estimate the co-operative's total capital requirements and determine the amount which can be raised from compulsory sale of shares to members. For example, if a co-operative wishes to raise $500,000 from the sale of membership shares, and can provide services to only 100 members, it must be able to attract 100 members willing and able to pay $5,000 to join the co-operative.

Example:

Each application for membership must be accompanied by a payment of $ _______ for the purchase of ________ shares in the co-operative.

Some co-operatives, particularly agricultural producer co-operatives, link share purchase requirement to the rights and obligations to deliver a defined product to the co-operative for processing. Different members will have different levels of investment according to the amount of delivery rights they purchase.

Example:

Each membership application must include payment of $ _____ for the purchase of ______ shares for each unit of delivery rights/obligations.

Co-operatives without Share Capital

Co-operatives without share capital generally require members to pay a membership fee to join the co-operative and sometimes require an annual fee to maintain membership. The amount of the fee or fees is determined by each co-operative and must be set out in the bylaws.

> ***Example:***
>
> *Each application for membership must be accompanied by a payment of $__ for the purchase of a membership in the co-operative.*

Board of Directors

The Articles set out the minimum and maximum number of directors a co-operative may have. The bylaws will establish the qualifications, means of election, term of office and procedures for removal of directors from office.

Qualifications of Directors

The Act provides that a director of a co-operative must be an individual and either a member of the co-operative or a duly appointed representative of a member that is a partnership, association, firm, body corporate or public body. The bylaws may provide for specific qualifications for directors. Qualifications may relate to such things as levels of patronage, eligibility of employees of the co-operative, and class of membership. These conditions must be clearly stated and not be based on gender, social, racial, political or religious status.

Eligibility of employees of a co-operative to be directors of the co-operative which employs them is one of the most common factors incorporated into bylaws respecting the qualification of directors. Bylaws may be used either to permit or restrict employee directors. The Act permits co-operatives, other than consumer co-operatives, to have one-third of the board made up of employees. Bylaws may extend this to include all of the directors. Such a provision is common in worker co-operatives, for example.

Consumer co-operatives, under the Act, may not elect employees to the board unless there is a bylaw permitting such election. The Act restricts consumer co-operatives from having a bylaw that would permit more than one-third of the directors to be employees.

> ***Example:***
>
> *Employees are eligible to be elected to the Board of Directors, but not more than 50 per cent of the directors may be employees.*

Election of Directors

The Articles set out the maximum and minimum number of directors, while the bylaws state the exact number of directors or state the range specified in the Articles. Bylaws should also state the process for nomination of candidates for election as directors and other specific rules a co-operative wishes to adopt respecting the election of directors.

Example:

There shall be _______ directors, or

At each annual meeting, the members shall, by ordinary resolution, determine the number of directors to be elected within the range set out in the Articles of Incorporation. If the members fail to specify the number of directors at the annual meeting, the number of directors shall be equal to the number set in the previous year.

Directors hold office until the conclusion of the meeting at which their successors are elected.

Term of Office

Bylaws should specify the length of term for which directors are to be elected and any limits on the number of consecutive terms a director may serve. Co-operatives often provide for the rotation of terms of office. For example, if there is a three year term, one-third of the directors' terms would expire each year. This requires election of some of the directors for shorter terms at the first general meeting.

Example:

Directors shall be elected for a three year term. To permit a rotation in office, at the first general meeting of the co-operative, one-third of the directors shall be elected for a one year term, one-third shall be elected for a two year term, and one-third shall be elected for three year term. In subsequent years, all directors being elected to fill a term that has expired shall be elected for a three year term. Directors shall be eligible for re-election.

The bylaws should also include provisions with respect to the filling of vacancies.

Example:

Where there is a vacancy on the board, and where there is a quorum of directors, the remaining directors may exercise all the powers of the directors, or fill the vacancy until the next annual meeting; and where there is not a quorum of directors, the remaining directors shall call a general meeting for the purpose of electing members to fill any vacancies.

Removal of Directors

Directors may only be removed from office by a resolution of members. Bylaws must specify the process to be used and the vote required. The bylaw may not require a vote greater than a two-thirds majority.

Example:

The members of a co-operative may, by a resolution approved by two-thirds of the votes cast at a general meeting, remove a director from office.

Appointment of Officers

The bylaws must also provide for the appointment of officers by the board. All co-operatives must appoint, usually through election, a president and vice-president who must be directors. Boards must also appoint a secretary and treasurer or a secretary-treasurer who may, but need not be, a director. The bylaws may also provide for other officers to be appointed.

Example:

The Board of Directors shall:

1. *Elect a president and a vice-president from among their number;*
2. *Elect or appoint a secretary and treasurer, or a secretary-treasurer who may, but need not be, a director;*
3. *Designate the officers of the co-operative, appoint persons as officers, specify their duties, and delegate to them the necessary powers to manage the business affairs of the co-operative.*

District Boundaries

Some co-operatives have bylaws that divide the territory in which the members reside into districts. This provision can be useful when electing delegates within a large region. Bylaws must set out the procedure for establishing and altering district boundaries.

Example:

The directors shall, from time to time, divide the area served by the co-operative into not fewer than _______ and not more than ______ districts.

Delegate Structures

Bylaws may also provide for the election of delegates, defining the powers, duties, method of election, voting rights and proceedings for removal of delegates. Usually delegates represent a district or a class of members. The Act permits the members at any annual meeting or special meeting called for that purpose to amend the bylaws to eliminate a delegate structure.

Example:

Each member group (district, class, etcetera) shall hold a delegate selection meeting each year, at least _____ days prior to the annual general meeting of the co-operative. At this meeting, the members shall elect ______ delegates who shall have all the powers of the general membership at any general meeting of the co-operative. The term of office of the delegates shall be ______ years.

The member group that elects a delegate may, at a delegate selection meeting or special meeting called for that purpose, remove the delegate by a vote of ______ (minimum, simple majority).

Dissolution

A co-operative must include a bylaw that states how the remaining property of the co-operative will be distributed if the co-operative is dissolved. Upon dissolution, the remaining assets of a co-operative must be used first to pay all creditors, and second to repay members' equity and other money held to the credit of members.

The bylaw respecting dissolution must set out how any assets remaining, after creditors and members have been paid, should be distributed.

Bylaws respecting dissolution may simply provide for all decisions to be made respecting distribution of remaining assets at the time of dissolution or they may specify that surpluses be distributed in a defined manner. Some co-operatives (such as community service co-operatives) are established to provide services on a not-for-profit basis and therefore do not permit surpluses to be distributed to members either in the form of patronage dividends or upon dissolution. Such co-operatives often state in their bylaws that surpluses at dissolution be distributed to specific co-operatives, non-profit corporations or charities.

Examples:

Upon the dissolution of the co-operative, property and unallocated surplus shall be distributed according to the special resolution to dissolve, or

Upon dissolution of the co-operative, the property and unallocated surplus shall be donated to _________. (State non-profit corporation(s), association(s), or co-operative(s) established for charitable or benevolent purposes, or to another co-operative(s) with similar objects.)

OPTIONAL BYLAWS

The previous section addresses all areas that co-operatives must include in their bylaws, but co-operatives must also address other issues. Members may decide to have additional bylaws to address other issues or to formulate policies to address them.

There are two reasons for the inclusion of other provisions in bylaws. One is to provide for restatement or clarification of provisions included in the Act, providing members with an easy reference on issues that commonly affect the co-operative. Examples include provisions relating to voting, the distribution of surplus, and amendment of bylaws. A second reason is to provide for member control over a particular issue. Enshrining a provision in the bylaws ensures it can only be changed with the consent of the members.

Following are some subjects that, while not required by the Act, are addressed in the bylaws of many co-operatives.

Voting

Subject to the Act, bylaws set out the rules for voting at board and general meetings. The Act and co-operative principles prescribe one-member-one-vote and do not permit proxy voting. Bylaws must be consistent with these principles but can include provisions such as rules for determining when a secret ballot is required.

Example:

Members or delegates shall vote by a show of hands or, where three members entitled to vote at a meeting so demand, by secret ballot.

Election of directors shall be by secret ballot.

The chairman shall have the right to vote but shall not be entitled to cast a second vote in the event of a tie.

In the case of a tie, the motion shall be declared lost.

Distribution of Surplus

Surplus is defined as the amount that remains after deducting all expenses from the total revenue of the co-operative. There are several issues that should be addressed in developing bylaws relating to the distribution of surpluses. First, a co-operative must determine if it is legally able to distribute its surplus to its members. If it is a community service co-operative or if its objects define its activities to be of a not-for-profit nature, it may not distribute any surpluses to members and it may specify this in its bylaws.

Example:

Any surplus resulting from the operations of the co-operative will be placed in reserve and cannot be distributed to the members of the co-operative.

Co-operatives that are permitted to distribute surpluses will do so according to the level of patronage by individual members.

Example:

Any surplus arising from the yearly operations of the co-operative shall be divided among the members in proportion to the volume of business of each member at a rate determined by the Board of Directors.

Amendment of Bylaws

Co-operatives may also include provisions on amending bylaws.

Example:

Members of the co-operative may, at any annual meeting or any special meeting called for the purpose, enact, amend, repeal, replace or confirm any bylaws, where written notice of the proposed enactment, amendment, repeal, replacement or confirmation is forwarded to each member of the co-operative with the notice of the meeting at which the enactment, amendment, repeal, replacement or confirmation is to be considered, by a majority of the votes cast at the meeting. If this notice was not forwarded to each member of the co-operative, a two-thirds majority of the votes cast at the meeting is required for passage of any amendments.

ASSEMBLING BYLAWS

Bylaws should be organized in a clear and concise document so related bylaws are together and specific references can be located quickly. They are usually organized according to subject and are numbered for easy reference. A multi-tiered system is often used with either a combination of letters and numbers (1., A., a.) or decimals (1, 1.1, 1.2).

The document often includes a section that gives definitions of key legal terms used in interpreting bylaws such as "Act", "regulations", and "directors". This section can be developed by reviewing the contents of the bylaws and identifying the words that require definition. Many key definitions are provided in *The Co-operatives Act, 1996* and *The Co-operatives Regulations, 1998.*

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

INTERNATIONAL CO-OPERATIVE ALLIANCE

STATEMENT ON THE CO-OPERATIVE IDENTITY

Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1. Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social racial, political, or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually received limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organizations, controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of the co-operative. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities, through policies approved by their members.

For additional information contact Saskatchewan Industry and Resources toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.ir.gov.sk.ca

FORMS OF BUSINESS ORGANIZATION

From a legal point of view, there are four types of businesses:

1. Sole proprietorships
2. Partnerships
3. Corporations
4. Co-operatives

A brief description of each type is followed by a summary of their advantages and disadvantages on page 3. For specific information on how or where to register or incorporate a business, contact:

Saskatchewan Justice, Corporations Branch
2nd floor, 1871 Smith Street, Regina SK S4P 3V7
Phone: (306) 787-2962 Fax: (306) 787-8999
Email: corporations@justice.gov.sk.ca

For additional information and all available forms, visit their Web site at:
http://www.saskjustice.gov.sk.ca/branches/Corporations/toc.htm

1. Sole Proprietorships

This is the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor has a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

This type of business comes under provincial jurisdiction. If the proprietor chooses to carry on a business under a name other than his/her own, he/she must register with the province. Registration, or renewal of registration, expires after three years.

If a sole proprietor establishes a business in his/her own name, without adding any other words, it is not necessary to register the business.

2. Partnerships

A partnership is an agreement in which two or more persons combine their resources in a business. In order to establish the terms of the partnership and to protect partners in the event of disagreement or dissolution of the partnership, a partnership agreement should be drawn up with the assistance of a lawyer. Partners share in the profits according to the terms of the agreement.

General Partnership

All members share the management of the business and each is personally liable for all the debts and obligations of the business. This means that each partner is responsible for and must assume the consequences of the actions of the other partners(s).

Limited Partnership

Some members are general partners who control and manage the business and may be entitled to a greater share of the profits, while other partners are limited and contribute only capital. Limited partners take no part in control or management and are liable for debts to a specified extent only. A legal document, outlining specific requirements, must be drawn up for a limited partnership.

All partnerships must be registered with the province of Saskatchewan.

3. Corporations

A corporation is a legal entity that is separate from its owners, the shareholders. No member of a corporation is personally liable for the debts, obligations or acts of the corporation. This type of business can be incorporated at either the federal or provincial level.

A corporation is identified by the terms "Limited", "Ltd.", "Incorporated", "Inc.", "Corporation", or "Corp.". Whatever the term, it must appear with the corporate name on all documents, stationery, and so on, as it appears on the incorporation document.

Private Corporation
A "private corporation" can be formed by one or more people. A majority of its directors must be Canadian residents and at least one must reside in Saskatchewan. A private corporation cannot sell shares or securities to the general public.

Public Corporation
A "public corporation" is one that issues securities for public distribution. Besides filing incorporation documents, a public corporation must file a prospectus with the Saskatchewan Securities Commission, must employ outside auditors, and, must distribute semi-annual financial statements.

Federal Corporation
Private and public corporations may be incorporated federally under the Canada Corporations Act. A firm operating nationally or in several provinces may find this advantageous. A federally incorporated business must still register in each province in which it does business.

Information and incorporation documents are available from the Corporations Directorate, Industry Canada.

Industry Canada Corporations Directorate
365 Laurier Avenue West, Ottawa ON K1A 0C8
Phone: (613) 941-4550 Fax: (613) 941-0601
Website: http://www.strategis.ic.gc.ca/sc_mrksv/corpdir/engdoc/homepage.html

4. Co-operatives

A co-operative is a corporation organized and controlled by its members, who pool resources to provide themselves and their patrons with goods, services, or other benefits. A co-operative business structure provides:

- Democratic control based on one member one vote
- Open and voluntary membership
- Patronage dividends

A co-operative is identified by the use of the words 'Co-operative', 'Limited', or 'Ltd.', which must be included with the corporate name in all business transactions. Co-operatives are categorized under three different acts:

- The Co-operatives Act 1996 consists of provincial legislation that applies to all co-operatives in Saskatchewan, with exception to new generation co-operatives;
- The Canada Co-operative Act provides for federal incorporation of co-operatives operating in at least two jurisdictions. These particular co-operatives must register under the Co-operative Act 1996;
- The New Generation Co-operative Act restricts the business of the co-operative to one or more of the following endeavours or businesses:
    A. The production, processing, or marketing of agricultural products;
    B. The provision of services to persons primarily engaged in an endeavour mentioned in section A.

ADVANTAGES AND DISADVANTAGES OF EACH FOR OF BUSINESS ORGANIZATION

SOLE PROPRIETORSHIP

Advantages

- Relatively low start-up costs
- Greatest freedom from regulation
- Owner in direct control of decision making
- Minimal working capital required
- Tax advantages to owner
- All profits to owner

Disadvantages

- Unlimited liability
- Lack of continuity in business organization in absence of owner
- Difficulty raising capital

PARTNERSHIP

Advantages

- Ease of formation
- Relatively low start-up costs
- Additional sources of investment capital
- Possible tax advantages
- Limited regulation
- Broader management base

Disadvantages

- Unlimited liability
- Lack of continuity
- Divided authority
- Difficulty raising additional capital
- Hard to find suitable partners
- Possible development of conflict between partners

CORPORATION

Advantages

- Limited liability
- Specialized management
- Ownership is transferable
- Continuous existence
- Separate legal entity
- Possible tax advantage
- Easier to raise capital

Disadvantages

- Closely regulated
- Most expensive form to organize
- Charter restrictions
- Extensive record keeping necessary
- Double taxation of dividends
- Possible development of conflict between shareholders and executives

CO-OPERATIVE

Advantages

- Owned and controlled by members
- Democratic control (i.e. one member, one vote)
- Limited liability
- Profit distribution (surplus earnings) to members in proportion to use of service; surplus may be allocated in shares or cash

Disadvantages

- Possible development of conflict between members
- Longer decision making process
- Requires members to participate for success
- Extensive record keeping necessary
- Less incentive to invest additional capital

BUSINESS PLAN GUIDE

This outline is intended to assist an entrepreneur in writing a BUSINESS PLAN for the establishment, the purchase, or the expansion of an existing business.

What is a Business Plan?
A business plan is a recognized management tool used by successful and/or prospective businesses of all sizes to document business objectives and to propose how these objectives will be attained within a specific period of time. It is a written document, which describes who you are, what you plan to achieve, where your business will be located, when you expect to get under way, and how you will overcome the risks involved and provide the returns anticipated.

Why do you need a Business Plan?
A business plan will provide information of your proposed venture to lenders, investors, and suppliers to demonstrate how you plan to use their money, and to establish a basis for credibility of your project.

When should a Business Plan be prepared?
The sooner you develop your business plan, the better. You will find the final copy of your business plan may differ from the original draft, as you will be updating, revising and refining it as you go. It is important that you examine all the relevant factors now. Therefore, you will be able to anticipate any surprises after your business has opened its doors.

Who should prepare a Business Plan?
The business plan should be prepared by those persons who will be implementing it.

Outside assistance from consultants, accountants, bookkeepers, and experienced business people can definitely help, but you must draft the initial plan. After all, you are the one that is going to run the business once it is open.

Think through each element of your business plan thoroughly, so you have a good understanding of the overall picture and all of the details.

Present your plan to others for constructive criticism and advice, and try to profit from their experience. Modify your plan if necessary.

What's in this for me?
If you have never drawn up a business plan before, you may be curious as to what the benefits are for you. First and most important, your plan can act as a guide. Second, it gives your lending agency insight into your business opportunity, therefore, positively affecting your loan application. Finally, your plan can help you develop as a manager by giving you practise in thinking about competitive conditions, promotional opportunities, sources of finance, etc. Your goal is to put the plan into action.

Business Plan Steps

1. **Executive Summary/Business Description:**
   Briefly describe:
   - If this is a new business venture, expansion of an existing business, or the purchase of an existing business;
   - The type of business activity in which you are engaged (manufacturing, wholesale, retail, food processing, service, high technology, etc.);
   - Your product or service and its uniqueness;
   - The market to be served;
   - Your advantage over the competition;

- The main objectives of your organization;
- Your management background;
- The project time frames involved.
  (This should be no more than a page summary of your business plan.)

- In addition, briefly describe what form of business structure you have chosen:
    - sole proprietorship;
    - partnership (enclose agreement);
    - corporation (enclose shareholders agreement);
    - co-operative (enclose membership agreement).

- Include:
    - date the business was registered/incorporated;
    - the business name and address;
    - the business phone number;
    - the principal(s) name(s) and telephone number(s);
    - the percentage of business or number of shares held by each (in partnership or corporation);
    - the website address and relevant email addresses.

2. **Project Costs and Project Funding:**

Identify the costs of the proposed business venture and the sources of the project funding.

Project Cost Summary

Land and Buildings __________
Leasehold Improvements (renovations) __________
Equipment/Furniture __________
Other Assets (goodwill, franchise, etc.) __________
Vehicles (if used in the business) __________
Inventory (opening cost) __________
Other Start Up Expenses as per Cash Flow (accounting, taxes and licenses, insurance, rent, supplies, etc.) __________
Working Capital __________

Total Project Cost __________

Project Funding

Equity
  - cash __________
  - contributed assets __________
Land and Building Mortgage __________
Equipment Loan __________
Other Loan __________
Line of Credit (L/C) __________
Grant / Subsidy

____

Total Project Funding __________

*** TOTAL PROJECT COSTS AND PROJECT FUNDING MUST BE EQUAL**

3. **Product/Service:**

Describe the products to be produced or the services/goods to be provided.

What makes your product/service unique, or how is your business different from others in the industry?

What are the features/advantages that will entice customers to buy from you? (i.e. convenience, service, performance)

Will you offer any product or service guarantees/warranties?

Provide information on any patents, trade secrets, or other technical advantages over the competition.

4. **Marketing:**

- Identify the total market for your product or service.
- To whom are you targeting your product or service?
- Identify your competition detailing their strengths and weaknesses, and your opportunities and threats relative to them.
- How will your competition react to you entering the market?
- What are your past sales (if applicable) and future projections?
- What price (manufacture, wholesale, retail, etc.) do you intend to charge for your product/service and how does it compare to the competition?
- What are your selling terms (cash or credit)?
- Identify promotional campaigns that will be used.

5. **Operating Requirements**

Identify your facility requirements as to the size, location, and type of premises. Include drawings of the proposed building layout. Attach the most recent real estate appraisal, offers to purchase or lease agreement, supplier quotations, etc. Indicate why you have selected this location.

Provide details relating to special requirements as to water, power, compressed air, ventilation, heat, air conditioning, drainage, disposal, Department of Health requirements, etc. Attach most recent approvals from Public Health, Liquor Licensing, city zoning, etc.

Provide a detailed listing (including legal descriptions) of the land and building(s), leasehold improvements, equipment and furniture, vehicles, inventory, and other assets. The listing should include the proposed purchase price of each asset.

Provide a general description of the day-to-day operations of the business (include hours of business, days open, seasonality of business, suppliers and their credit terms, etc.).

Provide product/manufactured cost estimates (if applicable).

6. **Management:**

What is the proposed organization chart of the company (i.e. who does what)? Include a brief job description for each position.

Provide brief management biographies of the key personnel (include their ages and backgrounds in this type of business).

State the compensation package (salary, bonus, profit sharing, etc.) for each member of management.

7. **Personnel:**

List employees (not owner or manager) using the following headings:

Position: full-time, part-time, seasonal, temporary.
Method of payment: hourly, monthly, commission, etc.

Provide a job description for each position, identifying the responsibilities and duties involved. Include what skill level is needed.

If job training is required, identify the duration and the cost of the training.

8. **References:**

Identify your:

	Name	Phone Number	Email
Accountant			
Banker			
Consultant			
Insurance Company			
Lawyer			

9. **Financial Projections:**

Provide a projected (pro-forma) Three Year Cash Flow, Balance Sheet, and Profit or Loss Statement.

10. **Additional Information:**

It is common for a financial institution to request that the principal(s) submit, with a loan application, a statement of personal net worth. This form is usually provided by the financial institution. If applicable, historical financial statements on the business venture may also be requested. Other supplementary and supporting documents for your business plan should be included in appendices.

The following web sites may assist you in preparing your business plan:

Interactive Business Planner	http://www.cbsc.org/ibp/
Royal Bank - Tools for Business	http://www.royalbank.com/business/tools/bigidea.html
$trategic Business Planning Co.	http://www.bizplan.com
TD Business Plannner	http://www.tdcanadatrust.com/smallbusiness/planner.jsp

LENDING - THE BASIC CRITERIA

Anybody who lends money always considers (to a various degree) the following factors:

1. Repayment Ability - What evidence exists to convince me I'm going to get paid back?
2. Management - What evidence exists that indicates that this person can manage his/her affairs well enough to allow the opportunity for payback?
3. Investment - What evidence exists that this person has enough of a commitment to the business so that I'll be sure he/she wants to work hard to protect it?
4. Security - If all else (above) fails, what protection do I have to get my money back? What will it be worth when the business fails?
5. Equity - Most lending institutions will require at least 25% cash/equity contributed to the total capital cost of the project.

Remember, it is quite unusual for all of the above factors to be completely satisfied. One or two points will most likely be stronger than the rest. Do not be discouraged if this is the case. Make sure that you focus on the strong points and are aware of the weak ones.

SOME TIPS FOR THE PRESENTATIONS TO LENDING INSTITUTIONS

1. Be absolutely familiar with all the data in the proposal.
2. Do a trial run presentation with a confidant. (Try some stress-producing questions.)
3. Never just 'drop-in'. Be sure to arrange a definite appointment with the appropriate manager. Confirm it a day in advance. Do not accept a "Come in any time" appointment.
4. Unfortunately, managers have difficulty with their appointment schedules. Therefore, decide whether or not you wish to wait. If not, reschedule your appointment. Never leave your proposal for the lender to review.
5. Attempt to find out if the manager has formal authority to grant the amount of the loan requested. If not, make sure that he/she understands your proposal, as he/she now has to represent you to his/her superior(s).
6. If you do not feel confident with the manager's understanding of your proposal, you are better off to shop around.
7. As one of your conditions for the loan, advise your manager that he/she should visit your business. Pick him/her up and return him/her if necessary. It is also a good idea to take your manager out for a friendly business lunch at least once every 12 months.

#A5751 - Lending - The Basic Criteria
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04/02

8. Often business owners start their business accounts with the branches they deal with personally. However, many banks are now formally dividing up operations between branches that specialize in business (commercial) accounts and those that handle personal accounts. Whatever the case, make sure that you deal with a trained commercial lender.

9. As in any business, banks often put their best people where the action is. Similarly, large branches frequently have the better commercial lenders. Their interests are focused on the best money making accounts, which may not be yours. Smaller branches generally offer more personalized service. You will have to decide which is the best lending institution for your business needs.

10. Good lending officers are frequently transferred, and often their clients are not encouraged to follow them. If this happens to you, insist on following your lending officer to his/her new posting. It is important to continue doing business with a representative who understands your business. Even though the bank may not like you following him/her, they would rather keep your business than lose you to a competitor.

11. Bankers are cautious and conservative. You must be 100% honest with your banker. Any misleading information may destroy the all-important mutual trust that is required.

12. Experience clearly shows that business owners who keep their banker informed of their successes and failures get the best co-operation when having difficulties. Your banker should expect your business to have financial peaks and valleys.

13. Banking is basically "You give me what I need and I'll give you what you need." Just be sure of what you need and what you are prepared to pay for it.

14. Try to plan your financing so that your proposal does not appear "urgent". Planning is an essential management quality. It is also a significant criterion for loan proposals. "Urgent" proposals tend to reveal a weakness in management.

VENTURE CHECKLISTS

The following checklists are meant to assist you in assessing each point against your business plan.

Marketing

Nature of the Market

- number of potential buyers, by region;
- number of existing buyers, by region;
- profile of buyers … by age, income, occupation, education, sex, family size, etc. by region;
- profile of users (if buyers and users are different) by region;
- where buyers and users live … by region, city size, urban, suburban, rural;
- where buyers buy … urban, suburban, rural, trading centre, local, type of store;
- size of purchases;
- when buyers buy … time of day, week, month, year, and frequency of purchase;
- how buyers buy … name brand specifications or not, impulse, planned, comparison, personal inspection, cash/credit;
- why buyers buy … attitudes, motivation, trends, styles;
- who influences buying decisions … by type of product and brand, uses of product;
- unfavourable attitudes of buyers and brand;
- indications of changes in buying habits.

Structure of Your Market

- number of competitors;
- number of brands … national, regional, local;
- share of market by brands … total, regional, city size, type of store;
- characteristics of leading brands;
- differentiation of own brand from leading brands … strength / weakness / opportunity / threat analysis;
- policies, presentation, methods and tools of principal competitors.

Product Profile

Product

- quality … materials, design, durability, safety, method of manufacture and workmanship;
- models, sizes, colours, flavours, etc.;
- luxury, standard, essential;
- convenience of shopping.

Package

- protection … shipping, handling, theft, tampering, spoilage, etc.;
- utility … measures, closure, reseal, disposable, reusable, etc.;
- identification … universal product code, visual exposure, colour, label;
- display … versatility for stacking, hanging, filing, etc.

Name Brand

- legal … logo, trademark, copyright, industrial design, song;
- image … memory value, goodwill value, recognition, suggestiveness, pleasingness, generic original.

Service

- installation … who, when, cost, delivery;
- maintenance … who, when, cost, convenience;
- repair … who, when, cost;
- warranty … who, when, how long;
- accessories … aftermarket, compatible.

Place in the Market

Distribution Channels
- number of retailers .. each type by region;
- number of wholesalers … each type by region;
- per cent of retailers … each type, handling brand by region;
- aggressiveness of retailers, co-operation by region, store type and city size;
- indications of shift in relative importance of channels.

Promotion

Personal Selling
- recruiting and selection … methods, qualifications, standards;
- training … methods, skill development, motivation;
- supervision … performance reviews, development;
- compensation … commission, bonus, benefit plans.

Advertising
- effectiveness … comparison of spaces purchased, timing, appeals and themes, black and white vs. colour;
- cost effectiveness … various media, style, background, placement;
- product effectiveness … feature products, merchandising.

Sales Promotion
- co-operative advertising;
- deals, premiums, coupons, discounts, bonus gifts, displays.

Publicity
- announcements, press releases, mentions.

Price

- from factory … volume capacity vs. demand;
- to wholesalers … by type, size and region;
- to retailers … by type, size and region;
- discounts … functional, volume, cash, other;
- allowance and deals;
- service charges;
- price stability … commodity influences such as energy, labour, weather, technology.

Strategy

- selection of a target market(s);
- development of a marketing mix [product / price / place / promotion];
- implementation and monitoring strategies.

Operation

Location
- traffic patterns;
- parking;
- zoning;
- local development trends.

Facilities
- lease/purchase;
- utilities;
- storage;
- expansion potential;
- fixtures and equipment
- leasehold improvements;
- layout;
- installations.

Operating Systems
- production;
- inventory;
- record keeping;
- job procedure;
- maintenance.

Operating Assistance
- lawyer;
- accountant;
- management consultant;
- engineering services;
- financial services;
- manpower services.

Finances

Capital Structure
- equity (25%);
- current assets;
- current liabilities;
- fixed assets;
- long term debt.

Operating Forecast
- sales;
- cost of sales;
- gross margin;
- general operating expenses;
- net profit / loss;
- income tax payable;
- cash flow analysis;
- contingency analysis;
- risk analysis;
- inflation impact analysis;
- interest rate impact analysis.

Financial Services
- bank/credit union;
- mortgage lender;
- insurance coverage;
- bonding;
- trade credit;
- venture capitalists;
- background equity;
- government programs.

Organization

Legal Structure
- proprietorship;
- partnership;
- private corporation;
- public corporation;
- co-operative.

Registrations
- trade names / copyrights;
- trademark/logos;
- business license;
- permits;
- Provincial Sales Tax;
- Excise Tax;
- Goods and Services Tax (GST);
- professional or trade licenses;
- memberships.

General Arrangements
- contracts;
- business forms;
- personal will;
- buy/sell agreement;
- cross insurance;
- key man insurance;
- occupational health and safety.

Staff

- skilled;
- unskilled;
- professional;
- supervisory;
- qualification standards;
- job descriptions;
- wages and salaries;
- performance standards;
- staff benefits;
- staff training;
- employee evaluation and appraisal standards.

Management

- Can management prepare and implement a sound business plan?
- Does management have adequate authority and control to fulfil its responsibility?
- Do training programs encourage personal skill development towards increased responsibility?
- Can management change be introduced as required to benefit the business? Even if the changes require a new manager?
- Does the manager have the qualities of time, character, stamina, planning, control, development, leadership, decision-making, confidence, practical realism? And **commitment**?

Preparation and Commitment
- Have you obtained independent legal advice on all contracts?
- Are **all** financial commitments finalized? In **writing**?
- Does the business plan have time in its favour?
- Are you prepared to lose your business investment?
- Are you prepared to succeed?

POINTS TO CONSIDER WHEN STARTING YOUR OWN BUSINESS

Throughout the years, entrepreneurs have turned their ideas into goods and services. They have met the needs and wants of consumers and, at the same time, they have built rewarding careers for themselves.

Becoming Your Own Boss

Many people start a small business in order to enjoy the perceived rewards of freedom and independence. This is understandable because owning your own business can offer you the opportunity to experience freedom.

- The freedom to use your own ideas.
- The freedom to be the boss.
- The freedom to not be fired.
- The freedom to earn as much as you want.

The reality of small-business ownership can be quite different. Many small business owners will tell you that they work more hours than when they worked for someone else.

A large number of those hours are the result of demands of **others**.

Some of the more demanding **others** can be the regulations imposed by provincial and federal governments. Some of the **other** regulations that must be adhered to are: federal and provincial licensing; local safety and health regulations; environmental protection rules; employee deductions and labour standards.

Then there are the significant **others** who impact the bottom line -- the customer. You must satisfy your customers, for these are the people who will ultimately decide whether or not your business will succeed. You will be successful only if you can provide them with the goods and/or services that they want or need.

Then there are your financial **others** -- the people who provide you with funds to get your business started. They might be relatives, friends, bankers, etc. No matter who they are, they will have a vested interest in how well you run your business.

Even your competitive **others** will become more significant as their policies and competition will affect the way you run your business, the hours you work, prices, profits, and more.

As the most important **other**, you alone will take full credit when errors in business decisions are made. A poor decision can result in losses not only to yourself, but to your employees, creditors, and customers as well.

It is money, after all, that is the bottom line. Your success depends upon your ability as a boss to make sure your business is making more money than it spends.

Why will "You" succeed?

At this point, the idea of running a small business may not seem very attractive. Don't let the negatives get you down. Running your own business can provide you with a tremendous source of self-satisfaction and pride.

In order to succeed, most small-business experts urge prospective business owners to carefully and completely analyze their potential venture.

Typically, you will begin by analysing yourself as a future entrepreneur. What kind of person are you? What technical or special knowledge do you have? Self-confidence and drive, innovative thinking, goal-orientation, and business and technical knowledge are necessary to succeed. These traits must also be tempered with realism. Knowing the limits of your own abilities and not being afraid to ask for help is imperative.

Successful people as well as business owners know what they want to achieve in life. They determine where they are going by setting goals, paying attention to details and motivating others around them. It is wise to understand and follow the lead of those successful people around you.

What Kind of Business

The type of business that you enter should complement your experience, interest and/or technical knowledge. It is fine for you to dream about becoming your own boss some day, however, before you put too much work into your business make sure that the area you choose is the right one for you.

When deciding what business to start, you may want to consider what hobbies and/or interests you have as well as your experience and background. If you are interested in an area in which you have little experience, you may want to seek some training before you begin. Arranging a job in the area of interest or acquiring a mentor are two ways that may help you gain the knowledge and experience that you need.

Two other factors that are equally as important as the above mentioned are:

(1) Is there a need for the goods and/or services that you are going to offer?
(2) Will there be a market for your product in the future?

Fads, technology, and innovations all affect the opportunity for any business to be and remain successful.

The Odds of Success

Starting your own business is risky.

Of all firms started, approximately a third fail within one year and 80 percent fail within three to five years. However, after five years the rate of discontinuation drops rapidly.

Lack of management experience accounts for nearly all of small business failures. This does not mean that all small business managers have poor management skills. More accurately, it refers to the person's ability to deal with the unexpected occurrences in business.

Desire and persistence along with innovative thinking improve the odds. In tough times, a smaller business may be able to change direction by introducing better methods to help move its product and sustain an adequate income.

Start-up Money

After you have decided that you want to be in business, you face the problem of money. How much money will it take to start your new business? How much operating capital will you need?

Forms are available that will help you put together a very good estimate of your business start-up and on-going capital requirements.

It is recommended that you become well acquainted with your local bank as it will probably be your main outside source of capital.

All of the above information should be helpful to you as you think about establishing your new business. Remember, it never hurts to gain more knowledge in your business area. Few businesses have gone broke because the owner knew too much about his or her business.

CHECKLISTS FOR GOING INTO BUSINESS

Summary

Thinking of owning and managing your own business? It's a good idea -- provided you know and have what it takes.

Starting a business is risky at best, but your chances of making it succeed will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions and worksheets to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

Before You Start	**Yes**	**No**
• Are you the kind of person who can get a business started and make it run efficiently?	____	____
• Think about why you want to own your own business. Do you want to badly enough to work long hours without knowing how much money you'll end up with?	____	____
• Have you worked for someone else as a foreman or manager?	____	____
• Have you had any business training in school?	____	____
• Have you saved any money?	____	____

How About The Money?	**Yes**	**No**
• Do you know how much money you will need to get your business started?	____	____
• Have you determined how much money of your own you can put into the business?	____	____
• Do you know how much credit you can get from your suppliers -- the people you will buy from?	____	____
• Do you know where you can borrow the rest of the money you need to start your business?	____	____
• Have you figured out what net / loss income per year you expect to get from the business?	____	____
• Are you willing to re-invest your salary / business profits to help your business grow?	____	____
• Have you talked to a banker about your plans?	____	____

How About A Partner?	**Yes**	**No**
If you require a partner for additional financing, do you know someone who will fit -- someone you can get along with?	____	____
Do you know the good and bad points about running your own business, having a partnership, and incorporating your business?	____	____
Have you talked to a lawyer about a partner?	____	____

How About Your Customers?	**Yes**	**No**
Do most businesses in your community seem to be doing well?	____	____
Have you tried to find out whether or not businesses like the one you want to open are doing well in your community and in the rest of the country?	____	____
Do you know what kind of people will want to buy what you plan to sell?	____	____
Do people like to live in the area where you want to open your business?	____	____
Do they need a business like yours?	____	____
If not, have you thought about opening a different kind of business or going to another location?	____	____

Your Building	**Yes**	**No**
Have you found a good building for your business?	____	____
Will you have sufficient room to expand when necessary?	____	____
Can you fix the building up the way you want without spending too much money?	____	____
Can people access your business easily from parking spaces, bus stops, or their homes?	____	____
Have you had a lawyer check the lease and zoning requirements?	____	____

Equipment And Supplies	**Yes**	**No**
Do you know what equipment and supplies you need, and how much they will cost?	____	____
Is it feasible to buy second-hand equipment?	____	____

Expenses	**Yes**	**No**
• Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc.?	____	____
• Do you need to know which expenses are direct, indirect, or fixed?	____	____
• Do you know how much your overhead costs will be?	____	____
• Do you know how much your selling expenses will be?	____	____

Miscellaneous	**Yes**	**No**
• Are you aware of the major risks associated with your product? Service? Business?	____	____
• Can you minimize any of these major risks?	____	____
• Are there major risks beyond your control?	____	____
• Can these risks bankrupt you?	____	____

Your Merchandise	**Yes**	**No**
• Have you decided what things you will sell?	____	____
• Do you know how much or how many of each you will buy to open your store with?	____	____
• Have you found suppliers who will sell you what you need at a competitive price?	____	____
• Have you compared the prices and credit terms of different suppliers?	____	____

Your Records	**Yes**	**No**
• Have you planned a system of records that will keep track of your income and expenses, what you owe people, and what other people owe you?	____	____
• Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell?	____	____
• Have you figured out how to keep your payroll records and take care of tax reports and payments?	____	____

Your Records continued	Yes	No
• Do you know what financial statements you should prepare?		
• Do you know an accountant who will help you with your records and financial statements?		

Your Business And The Law	Yes	No
• Do you know what licenses and permits you need?		
• Do you know what business laws you have to obey?		
• Do you know a lawyer you can go to for advice and help with legal papers?		

Buying A Business Someone Else Has Started	Yes	No
• Have you made a list of the advantages and disadvantages of the business someone else has started?		
• Are you sure you know the real reason why the owner wants to sell this business?		
• Have you compared the cost of buying the business with the cost of starting a new business?		
• Are the equipment / inventory up to date and in good condition?		
• Will the owner of the building transfer the lease to you?		
• Have you talked with other business owners in the area to see what they think of the business for sale?		
• Have you talked with the company's current suppliers?		
• Have you talked with a lawyer about the existing business?		

Advertising	Yes	No
• Have you decided how you will advertise? (Newspapers -- posters – television -- radio – Internet -- mail?)		
• Do you know where to get help with your ads?		
• Have you watched what other competitors do to get people to buy?		

The Prices You Charge	**Yes**	**No**
• Do you know how to determine what you should charge for each item you sell?	____	____
• Do you know what your competitors charge?	____	____

Buying	**Yes**	**No**
• Do you have a plan for finding out what your customers want?	____	____
• Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?	____	____
• Do you plan to buy most of your stock from a few suppliers or several? Do you know the advantages and disadvantages of each supply method?	____	____

Selling	**Yes**	**No**
• Have you decided whether you will have sales associates or self-service?	____	____
• Do you know how to encourage customers to buy?	____	____
• Have you thought about why you like to buy from some sales associates while others turn you off?	____	____

Your Employees	**Yes**	**No**
• If you need to hire someone to help you, do you know where to look?	____	____
• Do you know what kind of employees you need?	____	____
• Do you have a plan for training your employees?	____	____

Credit For Your Customers	**Yes**	**No**
• Have you decided whether or not to let your customers buy on credit?	____	____
• Do you know the good and bad points about joining a credit-card plan?	____	____
• Can you tell a deadbeat from a good credit customer?	____	____

A Few Extra Questions	**Yes**	**No**
• Have you figured out whether or not you could make more money working for someone else?	____	____
• Does your family go along with your plan to start a business of your own?	____	____
• Do you know where to find out about new business ideas and new products?	____	____
• Do you have a business plan for yourself and your employees?	____	____

If you have answered all these questions carefully, you've done some hard work and serious thinking. Moreover, you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes courage! You've got to be able to decide what you need and then go after it.

Good Luck!

Source: U.S. Small Business Administration

NAMING YOUR BUSINESS

Choosing a name can be a very important factor contributing to the success of your new business. The following is a list of items to consider when naming your business.

What to Include in a Name

A good business name can act as an effective advertising tool by communicating something about your business every time it is mentioned. For example, a good name can help customers understand what it is that your business does as well as force you to focus your businesses purpose.

When naming a business, a number of different factors should be taken into account:
- the name chosen is appropriate for the market you are targeting;
- the name is short and easy to remember;
- the name is distinct enough to separate you from your competitors.

Who are You Selling to?

Industrial Clientele: A strong, descriptive name may be used to provide potential customers with a clear understanding of what your company does (i.e. Jet Blast Inc., Noise Cancellation Technologies Inc., etc.).

Consumer-Oriented Clientele: Any business owner knows that competing with other businesses for clientele is difficult. Therefore, choosing a name that brings a lasting image to mind may be profitable. (i.e. Titanic Salvage, Timbuctu Tours, Sahara Sandblasting, etc.).

How to Proceed with Naming Your Business

Choose a few names that fit the image you want to create. Test them out on friends, family, and potential customers. Try some names that are strong on imagery, others that are strong on description, and still others that fall somewhere in-between. Pay particular attention to testing your business names with people in your target market -- the core consumer groups whose patronage you intend on capturing. Have these people write down their impression of what the business would sell, how it would be run, etc. Compare their thoughts with your own.

Contact Saskatchewan Justice, Corporations Branch ((306) 787-2962 or http://www.saskjustice.gov.sk.ca) to register your new business name. You will be required to specify the type of business organization that you are registering (sole proprietorship, partnership, private corporation, or co-operative). A fee will be charged to ensure that your business name will be available for your use only in advertising, signage, and legal purposes.

For some businesses, a Canada-wide name registration may be preferable. Information on this may also be obtained from Saskatchewan Justice, Corporations Branch.

The Bottom Line

A good name provides the customer with a description of your business. Whether the name uses a straightforward description or imagery to create an aura, ultimately, it should answer the customer's question: "What can I expect?"

#B5756 - Naming Your Business
Saskatchewan Industry and Resources
Business and Co-operative Services
04/02

SELECTING PROFESSIONAL SERVICES

The use of professional services is essential to the success of a small business. Professionals can provide knowledge and expertise in areas where you may have little. Professionals can also round out your management team to ensure that your business is operating efficiently.

As an entrepreneur, there are four main areas of professional services that you may wish consult: accountant, lawyer, banker, and insurance broker.

When seeking out professional help, choose carefully. Find someone with whom you feel you can establish a good working relationship. When searching for names, ask family members, friends, and businesses associates as well as consulting the Yellow Pages (http://www.saskyellowpages.com) in your telephone directory.

For first time meetings, be prepared to explain your situation and what you are looking for. Ask what services the firm provides and how it can assist you. Do not forget to ask how much the firm charges for its services.

Selecting An Accountant

Accountants are highly trained professionals who deal with business records, financial matters, and other aspects of planning and running a business. Accountants can:

- help you put a business plan together and provide financial advice;
- advise you on the form of business organization that is best for you;
- do your bookkeeping and/or provide bookkeeping training;
- prepare your financial statements and explain them;
- prepare corporate and income tax returns and other information required by government.

Hourly fees may vary depending on the kind of work, the complexity of the work, and the accountant's professional experience.

If you need someone to simply keep your financial books updated, you may want to consider hiring a bookkeeper. This may be a less expensive alternative.

Listed below are types of professional accountants:

- Chartered Accountant (CA) - specializes in taxation, the development of overall financial reports for external users and the preparation of financial forecasts for management, and external auditing.

- Certified Management Accountant (CMA) - specializes in the development of internal information on the company's product or service cost, which assists management in their decision making.

- Certified General Accountant (CGA) - specializes in financial accounting, external auditing, as well as small business taxation and consulting.

Selecting A Lawyer

Lawyers are highly trained professionals who deal with a full range of personal and business legal matters. Lawyers tend to specialize in one or more areas of practice.

If your legal concerns are restricted to one specific area, it may be best for you to deal with a lawyer who specializes in that area. Many business transactions have legal implications, so you should try to find a lawyer who you can treat as a trusted business advisor.

If you need assistance when searching for a lawyer, you can use this toll free number **1-800-667-9886**. This number can also be found in your local yellow pages under Lawyer Referral Services.

Some advice that lawyers can provide involve:
- Help choosing the correct legal format that is right for your business venture;
- Help in drawing up the documentation for your business;
- Help in understanding and observing zoning laws and local legal requirements;
- Aid in conforming with government regulation and record keeping;
- Help in developing contracts with landlords, suppliers, customers, etc.;
- Help in understanding and arranging leases.

Hourly fees or charges vary widely from lawyer to lawyer, depending on the complexity of the issues, the services required, and the degree of experience of the lawyer.

Selecting A Banker

Your commercial banking relationship is a matter that requires careful selection and the foundation for a long term commitment. Changing banks is far more difficult and expensive with a business account than with a personal account because commercial services are more customized and time consuming to negotiate.

Many of the reasons why individuals select a bank for personal needs are just as valid as those for business needs. You must consider price, quality, attitude, reputation, service, convenience, safety, and reliability.

These are a few critical factors that a business manager should bear in mind when selecting a banker.

- Attitude toward your business - Are they interested in your problems? Are they active in the community? Are they interested in creating a relationship?

- Credit services - Does the branch provide operating loans, term loans, letters of credit, guarantees, franchise financing, leasing, and government guaranteed loans?

- Size and management policies of the bank - Will your maximum requirements fall within their limit? How concerned is the banker with the growth and prosperity of your community?

- Cash management service - How does the bank's portfolio of services meet your needs? Services to consider: automated payrolls, payment distribution, transfer of funds, lock boxes, and 24 hour depository services.

A preliminary meeting with potential lenders is a good idea. You can outline your general plans and learn the needs of the lending institution and its services. To establish a good rapport with the lender, it is important to create confidence in your ability. Plan your project in advance and give the lender time to consider your business plan.

Banks generally will not lend you 100% of your start up financing. Your bank is a lender, not an owner or shareholder of your business. The bank will request that you invest some of your own money as a representation of your commitment.

Selecting An Insurance Agent

Insurance is an essential part of financial planning. Unless you are willing to pay personally for business catastrophes and lawsuits, you will need to consult an insurance agent and purchase insurance.

You may not be aware of the types of business catastrophes that could conceivably occur in your business. It is the job of your insurance agent to tailor a policy that best fits your needs. Here are some examples of insurance coverage that would protect you against a claim.

- Personal liability - protects against claims made by those who suffer bodily injury on your premises.
- Product liability - protects against law suits by customers who are injured while using your product.
- Fire - will enable you to rebuild or repair the business location as well as replace equipment and inventory in the event of fire damage.
- Automobile - protects your vehicle during business use.
- Disability - will provide income during a period when you cannot work.
- Business interruption - compensates for lost earnings during a temporary halt in business caused by a major disaster such as fire, tornado, flood, etc.
- Life - provides protection against financial loss caused by your death or serious injury.
- Workers' Compensation - covers treatment of injuries and loss of pay related to employee accidents or illness on the job.
- Crime/Theft - reimburses for losses due to robbery, burglary, or employee dishonesty.
- Bonding - ensures protection for faithful representation.

BUYING A BUSINESS

Pros	**Cons**
Buildings, equipment, inventory and staff are operational.	Buildings and equipment may be unsuited or obsolete.
Location is good.	Location may be poor for this type of business.
Product or service is already being produced and sold.	Inventory may be loaded with dead stock.
Market and goodwill are established.	Accounts receivable may be too high or uncollectible.
Cash flow is being generated.	Hidden reasons such as lease expiring and not renewable; zoning changes; deteriorating local conditions; labour problems.
Relationships are established with supplier and banks.	Bad relationships with banks and suppliers.
Good growth potential.	No growth potential.

Questions to Answer Before You Buy

The key to successfully purchasing a business is to fully investigate before you commit yourself. It is important to find suitable answers to the following questions.

Sales

- What's the future of your product or service? Is it expanding? Becoming oversold? Obsolete?
- Is the location good, or is it the reason for the sale?
- Have all sales been reliably recorded? Are the total sales broken down by product line if applicable?
- Are bad debts deducted from records or are they still shown as receivables?
- What are the monthly and annual sales patterns? Are they consistent? Seasonal? Related to other cycles?
- Are some goods on consignment and able to be returned for full credit?
- Are some goods on warranty? If so, will financial allowance be made for possible warranty commitments?
- Are sales fluctuations due to particular promotional campaigns?
- Is there a salesperson who contributes significantly to success? Can you keep him/her?
- Is the seller's personal role critical to business success?
- Are sales figures solely from this business?
- Is reported stock turnover in line with industry practice? Does existing stock include items from another business?
- Will existing suppliers be available to you?
- Can sales increase with current resources?

Costs

- Are expenses all-inclusive? Will new ownership change them?
- Is another business involved in the accumulation or payment of expenses?
- Have some expenses been delayed (e.g., equipment maintenance)?
- When are annual expenses due?
- What new or increased expenses should you anticipate?
- Are wages as well as an attractive profit margin provided for working owners?
- Is interest paid for money lent to the business? When are payments due?
- Does equipment value reflect reasonable annual depreciation?
- Must staff salaries be adjusted soon?
- Has your solicitor checked out the current lease?
- How will sales fluctuations affect costs?
- What expenses do similar businesses have?
- What costs are allocated to which product? How would a change in product 'mix' affect costs?
- Did the seller prepay some expenses? Must you reimburse him for your share?
- Is inventory accurately shown at true current value, for calculating actual cost of goods sold?
- Have you considered the extra cost of the GST on the sale of assets?
- Have you allowed for extra cash flow until you receive your GST input tax credit?

Profits

- How will sales fluctuations affect profits?
- Do you know the minimum and maximum sales potential?
- How will inflation and other economic trends affect sales and costs?
- Are profits sufficient to take the risk of buying the existing business?
- Have records been well kept?
- Have you analyzed them? Balance sheets? Profit and loss statements? Tax returns? Purchases and sale records? Bank statements?
- Based on past results, have you projected future cash flow and profitability? What is break-even point?
- Exactly what is and what is not included in the offer to purchase in writing?
- What are the book value, market value, and replacement value of the fixed assets?
- If inventory and/or work in progress are included, has a value been agreed upon at time of offer? Have you agreed on how it will be adjusted at time of closing, and within what limits?
- Is there inventory sold but not shipped?
- Are intangibles like business name, mailing lists, exclusive right, leases, etc. included?
- Can you obtain any necessary licenses?
- Are you buying accounts receivable? Do you have a listing of these by age?
- What would the accounts receivable sell for if sold to a factoring agency (bank or finance company)?
- Is the equipment in good repair? Efficient? Up-to-date? Easy to service? Saleable?
- Is some equipment leased? At what cost?
- Might you be offered the opportunity of ownership on maturity of a lease?
- Must you build your own accounts receivable? How will this affect cash flow?
- Is it an incorporated business? Are you buying assets or shares? Have you consulted your lawyer?
- Has your accountant advised you on the best way to value assets for taxation purposes?

Liabilities

- Are your assets free and clear of debts and liens? Are terms of debts you are assuming in writing?
- Are there contingencies such as warranties, guaranteed debts, or accounts?
- Are you assuming any risk of liability for the seller's actions (as can happen with a limited company)? Will customers expect you to make refunds, honour warranties, or risk losing goodwill even though you are not legally obliged to do so?
- Are there advances or prepayments that should be turned over to you?
- How's the business credit rating with suppliers?
- If buying part of a company or entering a partnership, what limits are there and what authority will you have in the management of the firm?
- Will cash flow cover the debts?
- Why is the business for sale?
- Is the seller co-operative in supplying information?
- Will the seller agree not to set up in competition for an agreed time?
- Will the seller train and assist you after the purchase?
- Is this the business you really want? Is it compatible with your interests? Experience? Personality? Finances?

The Purchase Agreement

- Does the contract of sale cover assets to be purchased, liabilities to be assumed, and when the business is to be taken over?
- Are you ready to negotiate, remembering a business is only worth what someone will pay and what a seller will accept?
- Have you included escape clauses in the proposed contract covering: obtaining financing, inspecting records, receiving licenses, rights and other transfers?
- Have you discussed this proposal with someone who understands this type of business?

Determining Price or Value of A Business

How much is a business worth? Is the asking price reasonable?

Pricing a business is not an exact science and several methods are commonly used to arrive at a price. Each method has some value and one should use a number of the methods to arrive at a range of prices, which you can use to set an asking price or use in negotiating if you are buying.

- Asset Value Methods

    - *Book Value* - lists the business net balance sheet value of its assets minus the value of its liabilities. This method usually understates the value as listed assets are often depreciated more than their true market value.

    - *Modified Book Value* - simply the book value adjusted to reflect current market value of assets.

    - *Replacement Value* - lists the replacement cost of the assets minus liabilities. Since few assets in a business are usually new, this method will overstate the value.

- *Liquidation Value* - net cash that would be received if all assets were sold and liabilities paid off. This would be the net cash result if the firm was going out of business and as such is probably the lowest value acceptable to the seller.

- *Market Value* - evaluates a business by comparing it with similar properties that have recently sold. This method is very difficult to use as similar businesses differ widely in size, reputation, market and management.

- Earning Value Methods

A buyer is interested in the performance of a business not only its asset value. Therefore, earning potential is a factor that should be taken into account.

- *Capitalizing Past Earning* - in this method the profits for a selected period of past years is adjusted for unusual items and an appropriate rate of return is divided into the average profit level derived. The rate of return (capitalization rate) is what return an investor would require on his/her money given the risk he/she sees in the business relative to other more secure investments such as bonds, GIC's, etc.

- *Discounted Future Earnings* - instead of using an average of past earnings, an average of predicted future earnings is used and divided by the capitalization rate.

- Combined Methods

Since asset value and earning value are both important considerations, there are a number of methods that combine both. One of the best-known methods of evaluating a business is the Bank of America Pricing Formula, which not only uses asset and earning value, but addresses the difficulty of valuing goodwill. The steps of this formula involve:

1. Determine the tangible net worth of the business (market value of current and long-term assets less liabilities).
2. Estimate how much the buyer could earn annually with investments in a comparable risk business.
3. Calculate a reasonable salary for owner/operator in the business under consideration.
4. Determine the net earnings of the business over recent years (net profit before subtracting owner's salary).
5. Establish the extra earning power of the business (step 4 minus steps 2 and 3).
6. Try to value the intangibles, such as goodwill, of the business. This is done by multiplying the extra earnings (step 5) by what is termed the "years of profit" figure. To find out the "years of profit" multiplier consider: how unique are intangibles offered by the business? How long would it take to set up a similar business and bring it to this stage of development? What expenses and risks would be involved? What is the price of goodwill in similar businesses? A larger multiplier, for example a maximum of five, would reflect a well-established business, which has a valuable name, patent, or location, whereas a younger firm might merely have a one-year profit figure multiplier.
7. Calculate the final price of the business, which equals the tangible net worth (step 1) plus the value of intangibles (step 6).

Example:	Business A	Business B
Step 1	$100,000	$100,000
Step 2	10,000	10,000
Step 3	18,000	18,000
Step 4	30,000	24,000
Step 5	2,000	(4,000)
Step 6	6,000	None
Step 7	$106,000	$100,000

In Business A, the seller receives a value for goodwill because the business is moderately well established (years of profit multiplier of 3) and earning more than the buyer could earn elsewhere with similar risks. In Business B, the seller receives no value for goodwill because the business, even though it may have existed for a considerable time, is not earning as much as the buyer could through other investments.

Source: Small Business Reporter – Bank of America

- Rules of Thumb

  In certain industries, rules of thumb can serve as guides to the valuation of a business. This is usually in terms of 'X' times sales, 'X' times net profit, or some combination of asset value and percentage of sales. You should be very cautious when using rules of thumb as they are based on averages and often don't accurately reflect individual situations. They also may become obsolete if the industry is changing. Rules of thumb should only be used to support other methods of valuation.

Goodwill

Goodwill is the value of intangibles, such as location, reputation, customer lists, franchises, supplier arrangements, quality of personnel, etc. Goodwill can be thought of as the difference between an established, successful business and one that has yet to establish itself and achieve success. Thus, a business that has run profitably for a number of years has a value over and above its asset value. Many sellers try to increase the value of goodwill by adding the potential they see for future business. However, that is not something you should pay for, but really only a factor you can use to decide whether or not to buy the business.

What to Buy - Assets or Shares?

If the business is a limited company, you may have the choice of buying the seller's shares or you can purchase part or all of the assets. If shares are purchased, you should be aware of all possible liabilities (debts, liens, lawsuits, etc.) before you take over the shares. Also, if shares are purchased, the assets in the records may have been fully depreciated to zero so there may be no further depreciation allowance available for tax purposes. There may be some advantage to purchasing shares if the company has previous tax losses that you can use against future profits. Due to the complexity of tax laws you should seek competent tax advice from an accountant or lawyer.

Financing the Purchase

Banks may be more receptive to financing a business that has a past track record of profitability as opposed to a new business start. However, if goodwill is part of the purchase, the bank usually will not be interested in financing this portion of the purchase. Many businesses change hands with the seller providing some of the financing in the form of an agreement for sale. This is especially true if the seller is retiring and does not need all the cash up front. Banks will generally require a set of recently audited financial statements before they can proceed with financing.

The Purchase/Sale Agreement

This agreement should be made up by a lawyer and will include terms and conditions to protect both the buyer and seller. Conditions regarding help of the seller in training the new owner and conditions not to compete with the new owner for a period of time, are a couple of the points often included in a good agreement.

Final Considerations

- Take your time and verify the information you are given before you commit yourself
- Don't fall in love with the business before you do your homework
- Be careful not to pay too much for goodwill
- Buy a business within an industry you know well with a product or service you are comfortable selling
- Buy based on the return on investment, not the price
- Don't use all of your cash for the purchase because you will risk cash flow problems
- Investigate current industry trends (i.e., economic and legal indicators) before you buy

CHECKLIST FOR FRANCHISEES

Franchising has become a major force in today's business environment. Franchising is a system of distribution used by companies to sell products or perform services. The company (franchisor) offers its technical expertise, established marketing system, symbols and trademarks, and ongoing operational support, in exchange for a continuing right to receive royalties from the operator (franchisee) and an entitlement to limit the amount of business control. The aim is to be mutually beneficial to both parties, by combining the marketing and technical strengths of the franchisor with the local market familiarity, energy and capital of the franchisee.

There are many opportunities available regarding franchised businesses. To add further complexity, there are many variations in the franchising methods offered. To ensure your success, you must be fully aware of and evaluate all available facts pertaining to your franchise opportunity.

The following checklist of questions should assist you in making a decision about acquiring a franchise. In addition, we strongly recommend that you consult with your lawyer and accountant before you sign any documents or contracts.

Self Evaluation

- Do you have the capital required for investment?
- Do you have the necessary management skills, education, and work experience required?
- Are you fully aware of the work involved in running this franchise?
- What is the best franchise for me? (The answer is a combination of four things)
    1. What types of businesses are succeeding these days, with every indication that they will continue to succeed?
    2. What is the kind of business you would like to be in?
    3. Is someone offering a franchise in your area of interest, which you believe will help you to succeed, and that you can afford?
    4. Can you work within the limits of a franchise system? Franchisors are not looking for real entrepreneurs, but more entrepreneurial sergeants who can fit into the system.

The Franchise Operation

- What is the franchisor's background and how long has it been offering franchises?
- Is the franchise financially stable?
- How selective is the franchisor when choosing its franchisees? Did they ask your qualifications and financial standing?
- Who are the principals involved and are they experienced in business?
- How many franchises are operating now? Are new locations being opened on a regular basis? Have any locations failed?
- If the franchise is new, what is its record of accomplishment?
- What innovations has the franchisor introduced since first starting?
- Are you required to meet with existing franchise owners?
- Does the franchisor provide local on-going training for franchisees for the length of the contract?

The Product or Service

- What makes the product or service unique?
- Is there a reasonable demand for it? Have sales been increasing or decreasing? Is it seasonal?
- Is it a product or service you would buy?
- Are you allowed to carry other product lines?
- Is it priced competitively with similar products or services?
- Can the franchisor guarantee continual supply at a fair price?
- Are there product warranties or guarantees? Who has responsibility?
- Is the product protected by a patent, trademark, or copyright?
- When your inventory levels become low, can you use other sources until the franchisor's products arrive?

Location and Sales Territory

- Is your territory clearly defined and exclusive? What guarantees do you have?
- What is the sales potential for the territory? Has the franchisor provided you with market information and statistics to support this?
- What is the future growth potential?
- Can you select your own location? Are there flexible standards for location and premises? Do you own or lease? What are the terms?
- What competition, both franchises and non-franchise businesses, is in the area?

Other Franchisee Experience

Have you been in contact with other franchisees? Ask the franchisor to give you a list of those operating in your vicinity. These are some of the questions you should ask when you visit or phone them.

- What was the total investment required by the franchisor?
- Were there any hidden or unexpected costs?
- Are you satisfied with the quality of goods supplied by the franchisor?
- How often and reliable is delivery from the franchisor?
- How long was it before your operating expenses were covered by revenue, and how long before you could draw a reasonable salary?
- Were the projected sales and profit figures provided by the franchisor accurate?
- Has your franchise been as profitable as you expected?
- What kind of management and staff training was provided? Did it meet your expectations? Where was it held? Was funding provided by the franchisor?
- Have you ever had a serious disagreement with the franchisor? What about? Was it settled amicably?
- Does the franchisor respond promptly and helpfully to questions or advice you are seeking?
- Are you satisfied with the marketing, promotional, and advertising assistance that you receive from the franchisor?
- If you could change your contract, what would you change?
- Would you recommend starting a franchise with this particular franchisor?
- What have you done to make your franchise successful?

Franchise Contract

The franchise agreement is a business contract that should clearly indicate the terms and conditions relevant to the business operation. Have your lawyer and accountant carefully review the agreement, particularly those areas dealing with bankruptcy, termination, renewal, transfer and sale of the franchise.

- Does the contract protect yourself as well as the franchisor? Are the rights and obligations of both parties clearly stated?
- Is the contract specific as to the type and size of operation you are expected to manage?
- Is the nature, duration, cost, and extent of your training outlined in the contract?
- Are your payments to the franchisor clearly specified? Are the following shown?
  - The franchise fee;
  - Any other fixed yearly payments the franchisor receives;
  - Royalty payments;
  - Advertising payments;
  - Fees for continuing services provided by the franchisor.
- Must you purchase your essential supplies from the franchisor or designated suppliers?
- Is there a minimum amount of merchandise you must purchase from the franchisor each year? If this merchandise cost is higher than other comparable products, is this a hidden franchise cost?
- What happens if supplies are interrupted? Can you purchase goods from alternative suppliers?
- Have you the right to the franchisor's latest innovations?
- Is there an annual sales quota? Is it attainable?
- What types of reports are you expected to provide to the franchisor?
- Does the contract cover in detail all of the franchisor's verbal promises made during the interviews?
- Will the franchisor maintain any necessary federal and provincial registrations?
- Can the contract be renewed or broken? If so, on what terms?
- When confronted with a monthly loss, can royalty payments be deferred to a later, more profitable month?
- Do you have to follow franchisor controls and policies exactly, or can you exercise some creativity regarding the product or service and its delivery?
- If leasing the location, will the lease be for the same term as the franchise agreement? Can the lease be renewed if you renew the franchise?
- Are you responsible for the construction or improvement of premises? If so, will the franchisor provide you with plans and specifications, and can these be changed or altered?
- To what extent can you choose your territory or location?
- Are you permitted to have multi-locations within your territory?
- Can you sell the franchise? What are the conditions?
- Can you keep any profits made from the sale? How is the sale price determined?
- Can you terminate the contract if, for some reason, you have to?
- If you terminate the contract, is there a penalty cost?
- When and how can the franchisor terminate your franchise?
- How will you be compensated for the goodwill you have built up in the business?
- If you default on the contract, how much time do you have to rectify the situation?
- Is there an arbitration clause regarding defaults?
- What happens to the business in the event of your prolonged illness or death? Have questions regarding succession been clearly addressed?
- Are you prevented from engaging in any other business activity for the duration of the contract?
- Does the contract prevent you from establishing, owning, or working in a competing business for a certain number of years after termination of the contract?
- Before you sign the contract, are you sure that the franchise can do something for you that you cannot do for yourself?

- For more Information on Franchises Contact:

Canadian Franchise Association
2585 Skymark Avenue, Suite 300
Mississauga Ontario L4W 4L5
Tel: (905) 625-2896 or 1-800-665-4232
Fax: (905) 625-9076
Website: http://www.cfa.ca

Entrepreneur Magazine / Entrepreneur Media Inc.
2445 McCabe Way
Irvine CA 92614
Tel: (949) 261-2325
Fax: (949) 261-0234
Web Site: http://www.entrepreneur.com

Entrepreneur Magazines FranchisZone
Web Site: http://www.entrepreneur.com/Franchise_Zone/FZ_FrontDoor/0,4670,,00.html

Franchise Annual On-Line
Info. Franchise News Inc.
9 Duke St., P.O. Box 755
St. Catharines ON L2R 6Y3
Tel: (905) 688-2665
Fax: (905) 688-7728
Email: infopres@infonews.com
Web Site: http://www.infonews.com/franchise

The Franchise Handbook On-Line
c/o: Enterprise Magazines Inc.
1020 N. Broadway, Suite 111
Milwaukee WI 53202
Tel: (414) 272-9977
Fax: (414) 272-9973
Email: info@franchisehandbook.com
Web Site: http://www.franchise1.com

Business Opportunities Classifieds Online
http://www.boconline.com/smallbusinesses.htm

Franchise Market
EntreMKT Internet Technologies
P.O. Box 72348
Roselle, Illinois 60172
Tel: (630) 539-6841
Fax: (630) 539-6842
Web Site: http://www.entremkt.com/access/index.html

FEASIBILITY CHECKLIST FOR STARTING A SMALL BUSINESS

Summary

This publication is a checklist for the owner-manager of a small business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must seriously consider to determine if your idea represents a real business opportunity and if you really know what you are getting into. You can use the checklist to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well-established firms. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful in evaluating your business idea. It is designed to help you screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analysing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves a preliminary assessment of both personal and project considerations.

General Personal Considerations

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy small business ownership/management?

	Yes	**No**
• Do you like to make your own decisions?	____	____
• Do you enjoy competition?	____	____
• Do you have will power and self-discipline?	____	____
• Do you plan ahead?	____	____
• Do you get things done on time?	____	____
• Can you take advice from others?	____	____
• Are you adaptable to changing conditions?	____	____

Saskatchewan Industry & Resources
Business and Co-operative Services
04/02

The next series of questions stress the physical, emotional, and financial strains of a new business.

	Yes	No
• Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?	____	____
• Do you have the physical stamina to handle a business?	____	____
• Do you have the emotional strength to withstand the strain?	____	____
• Are you prepared to lower your standard of living for several months or years?	____	____
• Are you prepared to lose your savings?	____	____

Specific Personal Considerations	Yes	No
• Do you know which skills and areas of expertise are critical to the success of your project?	____	____
• Do you have these skills?	____	____
• Does your idea effectively utilize your own skills and abilities?	____	____
• Can you find personnel that have the expertise you lack?	____	____
• Do you know why you are considering this project?	____	____
• Will your project effectively meet your career aspirations?	____	____

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

	Yes	No
• Do you have the ability to perform the feasibility study?	____	____
• Do you have the time to perform the feasibility study?	____	____
• Do you have the money to pay to have the feasibility study done?	____	____

General Project Description

- Briefly describe the business you want to enter. ____________________

  ____

- List the products and/or services you want to sell. ____________________

  ____

- Describe who will use your products/services. ____________________

  ____

- Why would someone buy your product/service? ____________________

  ____

- What kind of location do you need in terms of type of neighbourhood, traffic count, nearby firms, etc.

  ____

- List your products/services suppliers. ____________________

  ____

- List your major competitors - those who sell or provide similar products/services. __________

  ____

- List the labour and staff you require to provide your products/services. __________

  ____

Requirements For Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

	Yes	**No**
• Does the product/service/business serve a presently unserved need?	___	___
• Does the product/service/business serve an existing market in which demand exceeds supply?	___	___
• Can the product/service/business successfully compete with existing competition because of an "advantageous situation", such as better price, location, etc.?	___	___

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

	YES	NO
• Are there any causes (i.e., restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?	____	____
• Are capital requirements for entry or continuing operations excessive?	____	____
• Is adequate financing hard to obtain?	____	____
• Are there potential detrimental environmental effects?	____	____
• Are there factors that prevent effective marketing?	____	____

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

- How much income do you desire? ______________________________
- Are you prepared to earn less income in the 1st - 3rd years? ______________________________
- What minimum income do you require? ______________________________
- What financial investment will be required for your business? ______________________________
- How much could you earn by investing this money? (A) ______________________________
- How much could you earn by working for someone else? (B) ______________________________
- Add the amounts in (A) and (B). If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with the prospects of more substantial profit/income in future years?

Supply	**Yes**	**No**
• Can you make a list of every item of inventory and operating supplies needed?	____	____
• Do you know the quantity, quality, technical specifications, and price ranges desired?	____	____
• Do you know the name and location of each potential source of supply?	____	____
• Do you know the price ranges available for each product from each supplier?	____	____
• Do you know the delivery schedules for each supplier?	____	____
• Do you know the sales terms of each supplier?	____	____
• Do you know the credit terms of each supplier?	____	____
• Do you know the financial condition of each supplier?	____	____
• Is there a risk of shortage for any critical materials or merchandise?	____	____
• Are you aware of which suppliers have an advantage relative to transportation costs?	____	____
• Will the price available allow you to achieve an adequate mark-up?	____	____

Expenses	**Yes**	**No**
• Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc.?	____	____
• Do you need to know which expenses are direct, indirect, or fixed?	____	____
• Do you know how much your overhead will be?	____	____
• Do you know how much your selling expenses will be?	____	____

Miscellaneous	**Yes**	**No**
• Are you aware of any major risks associated with your product, service, and/or business?	____	____
• Can you minimize any of these major risks?	____	____
• Are there major risks beyond your control?	____	____
• Can these risks bankrupt you?	____	____

Venture Feasibility	**Yes**	**No**
• Are there any major questions remaining about your proposed venture?	____	____
• Do the above questions arise because of a lack of data?	____	____
• Do the above questions arise because of a lack of management skills?	____	____
• Do the above questions arise because of a "fatal flaw" in your idea?	____	____
• Can you obtain the additional data needed?	____	____
• Can you obtain the additional managerial skills needed?	____	____
• Are you aware that there is less than a 50-50 chance that you will be in business two years from now?	____	____

Source: U.S. Small Business Administration

QUESTIONS TO ASK BEFORE YOU SIGN A LEASE

Generally, our clients have had little or no experience with commercial leases. The following eleven points are a good starting point for those unfamiliar with commercial leases.

How Long Will The Lease Run?

Typically, commercial leases run anywhere from three to ten years, and the term is usually negotiable with the landlord. It is just as important to remember when the lease will begin as it is to determine when it will end. Unless the space you agree to occupy is already vacant and remodelled to fit your needs exactly, all kinds of last-minute problems can occur. For example, an old tenant refuses to move out; construction isn't finished on schedule; disagreements arise about whether or not you can gain early access to install fixtures and make your own improvements.

Your lease should clearly illustrate what will happen if the space is not ready by the move-in date and what adjustments in rent will be made by the landlord. Be wary of clauses that allow the landlord to provide "alternative" space if the new premises are not ready on time. This deal may only increase your costs and inconvenience of moving. If you have any doubts about whether or not your new space will be ready on time, give yourself some leeway in moving out of your old premises. Otherwise, you may find yourself operating out of a moving van while lawyers squabble over the fine print.

How Much Is The Rent?

Rent, unlike other business expenses, is a fairly inflexible part of your overhead and may be deceiving.

Commercial rents are generally measured by the annual cost per square foot of the space (see "How Much Space Are You Really Renting" on page 4) but there are at least five common ways to calculate rent. Every method uses square footage as the basis for comparisons.

Gross Leases - Once the most common standard for office space, Gross Leases simply required the tenant to pay a flat monthly amount; the landlord was responsible for all the expenses of operating the building, including taxes, insurance, and repairs. However, many landlords now charge tenants separately for heat and electricity, which used to be included in the rent.

Net leases - This type of lease requires tenants to pay for some or all of the real estate taxes on a property in addition to base rent.

Net-net leases - These leases go one step further then the Net Lease. Besides base rent and taxes, the tenant pays for insurance on the space they occupy.

Net-net-net, or "Triple Net" Leases - Usually written only for industrial properties, Triple Net Leases effectively pass on all the costs of operating the building, including repairs and maintenance, to the renter.

Percentage Leases - These leases are a special type of rental arrangement that applies to retailers, especially in multiple-tenant malls or shopping centres. In a percentage lease, the tenant pays a fixed rate plus a percentage of gross income.

How Much Will The Rent Go Up?

Not very long ago, increasing the rent every time a new tenant moved in or a lease was renewed could offset the increasing costs of operating a building. Now however, the costs of operating real estate are unpredictable, and as a result most landlords feel they need protection in the form of escalation clauses.

One common type of escalation clause builds in regular step-ups in rent over the course of the lease; others pass on prorated increases in taxes, heat, maintenance and other direct costs. Another common escalation clause automatically raises rent according to the Consumer Price Index or some comparable index of inflation. Since the CPI generally overstates the impact of inflation, a tenant should not agree to pay more than a portion of the annual CPI increase, especially if the lease already contains escalators for taxes and direct operating costs.

Most landlords will negotiate the key elements in the escalation clause, including the base year. If you move in halfway through the local fiscal tax year, for example, your base year for taxes could be any of three years - the previous tax year, the present year, or even the next full year. The same holds true for heating costs and other elements of the owner's overhead. In particular, you should be careful about the base year if you move into a new building that may take a year or two to reach full capacity, since the owner won't have a stable history of operating costs to use as a reasonable base.

Can You Sub-Lease?

Two years into a five-year lease, you discover your company is bursting at the seams and it is time to find a new home. What happens next may depend on a rather delicate negotiation with your landlord over what kind of sub-leasing he considers "reasonable".

At the very least, you will have to come up with a new tenant who meets the same standards that the owner applies to other tenants. You are not off the hook if you find a massage parlour willing to take over your space in a prestigious shopping mall, or a punk-rock band that plans to use your office space for practice sessions. Moreover, if your subtenant decides to skip town, you are still responsible for paying the rent on the original lease.

Today, there is a new wrinkle to the traditional negotiations over subleasing privileges: the question of who keeps the profits if your new tenant pays more than you did for rent. In today's tight rental market, that situation occurs fairly often, and landlords are naturally eager to write leases that give them more control over sub-leasing arrangements. For instance, one tenant who merged his company with another business recently found an eviction notice in his mail. The landlord claimed that the "new" corporation had no valid lease for the premises, and would have to pay a higher rent to remain.

Can You Renew?

Once your present lease expires, a landlord has no legal obligation to offer the same (or other) space to you. Unless you have agreed on a renewal formula and have a clause that guarantees you will get first rights to the space when your lease expires, you will no doubt pay the prevailing market rate to continue.

Normally, a tenant has to give written notice exercising his option to renew his lease, or it lapses automatically. A year's notice for long-term leases, while only three or four months might be standard for short-term leases. Some leases, however, are renewed automatically until you take steps to cancel them. This can be a handy arrangement for companies with several branch locations that don't want to risk having their leases run out by accident.

What Happens If Your Landlord Goes Broke?

A few years ago, a doctor moved into a small, privately owned medical building and spent a fortune on renovations and built-in equipment. One morning a bank officer showed up and announced the doctor's ten-year lease was void because the bank had foreclosed on the building. The doctor could stay at twice his original rent or move within 30 days.

The doctor could have protected himself either by making sure his lease contained a standard "recognition" or non-disturbance clause. If a landlord balks on this point, it may be that he is on shaky financial ground.

Who's Responsible For Insurance?

In the rush to firm up a lease, insurance rarely gets the attention it deserves. The result is that many buildings, especially those with multiple tenants, are covered by a hodgepodge of overlapping and inadequate coverage. This is not only costly it also invites disaster. In case of fire or other major disaster to the building, it may take years before the various insurance companies manage to sort out the claim and decide what is and is not covered.

Landlords in general are expected to carry a comprehensive policy on the building that covers liability for common areas, such as lobbies, stairways and elevators, and provides casualty protection for the building itself. They also have the right to insist that tenants carry their own insurance to protect the landlord against claims that might arise from the conduct of the tenant's businesses (a visitor who trips on an office carpet, for example) and "contents and improvements" coverage that protects his investment in the property itself.

Making sure the policies fit together, though, is a job for a professional insurance agent or a lawyer with expertise in insurance. He/she should be able to review the building owner's policies, help close any dangerous gaps, and spot unnecessary expenses.

What Building Services Do You Get?

Just about the only way a landlord squeezed by inflation can cut his costs is by lowering thermostats and reducing maintenance. It is a good idea, therefore, to define in writing precisely what services you are entitled to get as part of your lease.

Electricity is often supplied as part of the building services, however a landlord may set limits if you plan to install electrical machinery or extra air conditioning.

Heating, ventilation, and air conditioning (HVAC) are also usually the landlord's responsibility. Unlike apartment buildings, though, commercial space rarely offers 24-hour HVAC service. You should attach an HVAC schedule to the lease itself, and even specify what service is to be provided on statutory holidays. Normal HVAC service is usually available Monday through Friday, from 8:00 a.m. to 5:00 p.m. and Saturday from 8:00 a.m. to 1:00 p.m.

Cleaning services can make a big difference in the appearance your company presents to the public, so you should request a specific cleaning schedule and who is responsible for housekeeping details such as cleaning restrooms and taking out the trash.

Who Else Can Move In?

How would you feel if a close competitor moved in next door? Or a business that generated strange odours or loud noises? Or one that attracted unsavoury people? To some degree, zoning laws protect businesses from incompatible uses, such as retail businesses in office buildings, or manufacturing in a retail neighbourhood. But, you can also negotiate stricter limits with your landlord if you feel it is necessary.

Just remember, if you must sub-lease, those strict requirements may give your landlord reason to reject your selected tenant.

Who Pays For Improvements?

Modern office buildings generally provide allowances for improvements (ie., new partitioning, lighting, carpets, paint, etc.), but there may be variations in individual tenant needs, and what landlords are willing to provide. No other area of a lease, in fact, is so open to negotiation and hard bargaining between landlord and tenant.

This bargaining is complicated by the high costs of even minor construction jobs. A single new electrical outlet, for example, may end up running $20 a meter to lie down, and plasterers and painters may bill their time from $15 to $30 an hour. If the building owner is carrying the remodelled space rent-free during construction, the cost may be substantial.

You are more likely to persuade a landlord to pay the bill for major renovations if the changes you request will suit future tenants as well. Unusual partitioning, carpets, and wallpaper with strange patterns or colours won't add to the value of the landlord's property. They may even have to be removed before the space is marketable again.

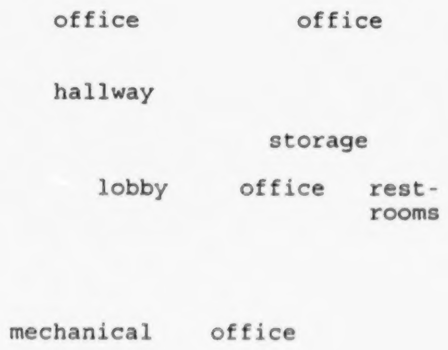
Agreements about renovations should be put in writing, preferably with a detailed floor plan and estimate of costs from a contractor, before the lease is signed. This document, called a "workletter", should also specify who owns any improvements. Unless you agree otherwise, anything a tenant attaches to the space he occupies - air conditioners, light fixtures, shelving, cabinets, even his own office and manufacturing equipment - will eventually become the landlord's property. An example of this was a person who learned this lesson the hard way. He had just installed a handsome new reception desk, and was dismayed to learn he would have to leave it behind once he moved. The worst part of this situation is that he paid for improvements the new tenants received free.

How Much Space Are You Really Renting?

Commercial rents are almost always priced by the square meter, that is, the amount of annual rent a tenant pays for each square meter of the space occupied. Raw warehouse or factory space might rent for only a few dollars per square meter, whereas first-class office space or a desirable storefront might rent for $30 to $40 a square meter.

Square meterage is a handy yardstick for comparing rents. But, not all landlords measure square meterage in the same way, so you need to ask two key questions: How much usable space will you get for your money and how much of your rent is apportioned to public space such as lobbies, hallways, bathrooms, and mechanical areas (25% and 30% are typical)?

There are several standard formulas real estate professionals use to measure and apportion space, particularly for modern high-rise office buildings. The "New York Multiple Tenancy Floor Method", for example, divides the cost of lobbies and bathrooms among the tenants on each floor, but excludes elevator shafts and stairways. The "BOMAS International Method" allocates all the costs of common areas on multiple-tenant floors to the building as a whole, while the "Boston Method" charges tenants for the lobbies and hallways on each floor but not the bathrooms, elevator shafts, and mechanical rooms. Take note if you only rent a portion of a floor, as differences can add up to large variations in rent over the lifetime of your lease. It pays to know exactly what you are getting.



INVESTIGATIVE CHECKS

The following list of credit bureaus, reporting agencies, and other sources of information can assist you in determining the following:

- Should you purchase that used equipment?
- Should you extend credit to that new customer?
- Can you count on that new supplier?
- Will that new employee be a prudent fit?

SASKATCHEWAN JUSTICE
1874 Scarth Street
Regina, Saskatchewan
S4P 3V7
Tel: (306) 787-8971
Fax: (306) 787-5830
Web Site: http://www.saskjustice.gov.sk.ca

Saskatchewan Justice - Corporations Branch (1871 Smith Street, Regina)

Information Provided:
- information on whether a company or business has been, or is presently registered or incorporated in the Province of Saskatchewan
- the name of the business
- the nature of the business to be carried on
- the registered office and mailing address of the business
- the business ownership
- if incorporated, the directors and owners' names and addresses
- the number of shares

Membership Available: No
Membership Necessary to Access Information: No
Membership Benefits: Not applicable
Verbal Report Available: Yes *Fees:* Yes
Written Report Available: Yes *Fees:* Yes
How to Access: Phone: 306-787-2962 (Regina) Fax: (306) 787-8999
Other Services Available:
- business registrations and incorporations
- also incorporates non-profits, co-operatives, and credit unions
- lists of professional associations and their bylaws

Saskatchewan Justice - Consumer Protection Branch (1871 Smith Street, Regina)

Information Provided:
Answers licensing enquiries and complaints on the following businesses:
- Agricultural implement dealers and distributors
- Auctioneers
- Collection agents
- Credit reporting agents
- Door to door sellers
- Motor dealers
- Pyramid franchise operators
- Training course sellers

Membership Available: No
Membership Necessary to Access Information: No
Membership Benefits: Not applicable
Verbal Report Available: Yes *Fees:* No
Written Report Available: Yes *Fees:* No
How to Access: Phone: 306-787-5550 (Regina); 1-888-374-4636 Fax: 306-787-9779
Other Services Available:

- regulate credit unions, insurance companies, loan, trust and finance companies, mortgage brokers, prepaid funeral service, and the real estate industry.

Saskatchewan Justice - Personal Property Registry

Information Provided:

- information regarding registration of liens against all types of personal property, including motor vehicles and farm equipment.

Membership Available: No
Membership Necessary to Access Information: No
Membership Benefits: Not applicable
Verbal Report Available: Yes *Fees:* Yes
Written Report Available: Yes *Fees:* Yes
How to Access:

- if you are in Regina, phone 787-6787.
- if you are outside Regina, visit or write the nearest court house that has a Sheriff's office.
- most financial institutions (banks, credit unions, and trust companies) and law offices have an account with the Registry.

Other Services Available:

- as above, remember to check any goods that you are purchasing second-hand from a private seller, an auction or a used-goods retailer.

LAND TITLES OFFICE
2024 Albert Street
Regina, Saskatchewan
S4P 2T7
Phone: 306-787-5513
Website: http://www.isc-online.ca

Information Provided:

- Information on assignments, mortgages, judgements, caveats and liens that may be registered against land and buildings.

Membership Available: No
Membership Necessary to Access Information: No
Membership Benefits: Not applicable
Verbal Report Available: No *Fees:* Not applicable
Written Report Available: Yes *Fees:* Yes
How to Access:

- there are eight land titles offices in the province. For searches, write or visit the nearest office, provide a legal description of the title you want searched and the fee.

Other Services Available:

- registration of caveats, mortgages, transfers, taxes, etc.

DUN AND BRADSTREET CANADA
5770 Hurontario Street
Mississauga, Ontario
L5R 3B5
Tel: (905) 568-6000 or 1-800-463-6362
Fax: (905) 568-6197
Web Site: http://www.dnb.com

Information Provided:
- information and company credit reports only unless individual is self- employed

Membership Available: Yes
Membership Fee: Yes
Membership Necessary to Access Information:
- no, however occasional users must pay a full service fee for the report

Membership Benefits: Cost per report reduced.
Verbal Report Available: Yes *Fees:* Yes
Written Report Available: Yes *Fees:* Yes
How to Access: Telephone: 1-800-665-8092
Other Services Available:
- credit reference books and online credit information services anywhere in the world

BETTER BUSINESS BUREAU (BBB) OF SASKATCHEWAN INC.
302 - 2080 Broad Street
Regina, Saskatchewan
S4P 1Y3
Tel: (306) 352-7601
Fax: (306) 565-6236
Web Site: http://www.saskatchewan.bbb.org
Email: bbbsask@accesscomm.ca

Information Provided:
- information on how long a company has been in business, type of business, who the owner is, whether there are any unresolved or resolved complaints against it and whether the company is a Better Business Bureau member.

Membership Available: Not for information requests.
Membership Necessary to Access Information: No
Membership Benefits: For businesses that are registered - Recognition of Service Quality Status
Verbal Report Available: Yes *Fees:* No
Written Report Available: No *Fees:* Not applicable
How to Access: 306-352-7601
Other Services Available:
- can provide mediation. Can refer to other bureaux in Canada and United States if they do not have the information locally.

EQUIFAX CANADA INC.
Consumer Relations Department
Box 190 Jean Talon Station H1S 2Z2
Montreal, Quebec
Tel: 1-800-465-7166 (non-member) 1-877-227-8800 (member)
Fax: (514) 355-8502
Website: http://www.equifax.ca
Email: consumer.relations@equifax.com

Or

CREDIT BUREAU OF SASKATOON REPORTING LIMITED
Regional Centre
Equifax Canada Systems Affiliate
304A – 4th Avenue North
Saskatoon, Sask.
S7K 1K7
Tel: (306)-343-3200
Fax: (306) 343-3210

Information Provided:
- provides credit history checks on individuals, reports on individuals, commercial operations, and registrations under the Personal Property Security Act

Membership Available: Yes
Membership Fee: Yes
Membership Necessary to Access Information: Yes
Membership Benefits:
- to receive information, computer link-up also available

Verbal Report Available: Yes *Fees:* Yes
Written Report Available: Yes *Fees:* Yes
How to Access: 1-800-465-7166
1-877-227-8800 (if member)
Email: consumer.relations@equifax.com
Other Services Available:
- cheque guaranteeing service, data inputting service, insurance investigation, and collection agency

Other sources of information on companies, purchases, or employees:

- *Hoovers Handbook of American Business*, profiles 500 major U.S. companies. This handbook illustrates company histories, strategy, reputation, and ownership. It also includes financial charts, mailing lists, and company standings in over 50 different ranking categories. To order call 1-800-486-8666.

- The U.S. Securities and Exchange Commission has an online database called EDGAR. This database provides information which allows you to analyse industries. EDGAR specializes in providing lending, credit risk, education and training information on many companies throughout the U.S. For more information contact their head office at 450 Fifth Street, NW, Washington, D.C., 20549, Ph: (202) 942-7040, Email: help@sec.gov.

- Check with credit departments of companies that may ship to the company in question. Suppliers of non-competing goods may indicate the company's standing with them.

- Check for tax arrears and caveats for permitted non-conformance, etc. at the local municipal office and also check to see that the company is registered or licensed.

- Check with the sheriff's office for writs outstanding and not yet collected.
- As a lessee, caveats or an interest can be registered against the property.
- Your bank or credit union can check with the other company's lender and also assist you with credit checks.
- Your lawyer's expertise can be crucial in this area.
- Remember, you owe it to yourself, your employees, and your customers to investigate any new hires. It is the job applicant's responsibility to provide verifiable information, not yours.
- It's better to check matters out now than worry later, but don't take every negative at face value, as there could be extenuating circumstances.
- Anytime you undertake tasks of due diligence, whether it's an application for employment, credit, insurance, or bonding, you have the right to check all references deemed necessary. Remember though, you also have a duty to act confidentially so as not to cause damage to the applicant.

LEGAL ISSUES IN STARTING A BUSINESS

The use of professional services is essential to the success of a small business, whether you are buying an existing business or franchise, starting from scratch on your own, or expanding a business you presently operate.

Professionals can provide the knowledge and expertise in the areas that you are limited, and they can round out your management team to ensure your business operates efficiently.

One of the professionals you will want to consult with as an entrepreneur is a lawyer.

Lawyers are highly trained professionals who deal with a full range of personal and business legal matters. Most lawyers tend to specialise in one or more areas of practice.

If your legal concerns are restricted to one specialty area, it may be best for you to deal with a lawyer who specialises directly in that area. Many business transactions have legal implications, so you should try to select a lawyer whom you can treat as a trusted business advisor.

When searching for a lawyer, ask your business associates, friends, and family for references of law firms they have used and received satisfactory services from in the past.

You may also contact the "Lawyer Referral Service" toll-free at 1-800-667-9886 for assistance in locating a lawyer that specialises in the areas you require. This service is provided by the Law Society of Saskatchewan.

Before your initial meeting with a lawyer, prepare yourself to be able to explain your particular legal requirements.

You should ask the law firm what services it can provide to you, and at what cost. Hourly fees may vary widely from lawyer to lawyer, depending on the complexity of the issues, the services required, and the degree of experience of the lawyer. Once a lawyer has determined your needs and is familiar with your situation, an estimate of legal costs can usually be provided.

Some examples of legal issues that may require the services of a lawyer for your business are listed below:

1. Selection of a Business Structure

Whether you plan to operate a home-based business or are involved in a large commercial operation, you will need to decide on which type of business structure best suits your needs. Your options will range from sole proprietorships, partnerships, limited or incorporated companies, to co-operatives. A lawyer can help you choose the correct form of business structure, based on factors such as the number of people involved, the type of business, tax issues, liability concerns, and financial requirements of the firm. An accountant should also be consulted regarding the tax implications of the form of business structure chosen.

2. Review of Lease

Most businesses initially start out from leased premises rather than incurring the major capital investment of buying or constructing a new building. However, leases still constitute one of your largest expenses, and usually represent a long-term commitment. As such, your signed lease agreement is a very important legal document.

Leases can vary from a simple one-page agreement to a lengthy complex document, depending on the space you are renting (e.g. mall space vs. separate building).

While your realtor can assist you in understanding the costs and basic terms of a lease, it is advisable to have a lawyer explain the legal ramifications before you sign on the dotted line.

3. Buying An Existing Business

When buying an existing business, you may have to decide whether to buy only the assets of the business, or in the case of an incorporated company, the shares of that company. In the case of the latter, you will also be assuming the liabilities of that company. Before completing such a transaction, a lawyer should be utilized to conduct various searches in order to protect your investment (e.g. outstanding liens against the company assets).

With any business purchase, you should have a buy/sell agreement signed by both parties, which spells out the demands and obligations of each as well as the terms of the deal (e.g. non-competition provision).

You should also be checking with your accountant on the different tax implications, if purchasing the assets or shares of an existing corporation.

4. Contracts

If you are buying an existing business, you will want to protect yourself from any prior breach of contract or law, and have your lawyer review any contracts still in effect after your buy-in.

There are a number of other legal issues you must ensure the business complies with such as licensing, registrations, consents, notices, environmental concerns, and employee issues.

Other forms of contracts that require the services of a lawyer include the preparation of a partnership or shareholder agreement, a lease agreement, employment contract, mortgage, purchase agreement, or possibly a franchise agreement.

Above all, make sure you contact a lawyer before you sign anything!

Source: Women Entrepreneurs of Sask., Women In Business Newsletter - Summer '96 Volume 1.2, Saskatchewan Industry and Resources handout B5758 - *Selecting Professional Services*

DEALING WITH YOUR BANKER & OTHER LENDERS

Your Financing

The success or failure of your business will depend on whether or not you have enough capital to:

- Buy the equipment and inventory you need.
- Pay overhead costs such as rents, salaries, etc.
- Have a large enough reserve fund for extra working capital, which could be used to take advantage of 'specials' and for surviving temporary setbacks.

What Funding Do You Need?

Your funding requirements can be broken down into two main categories:

1. Initial costs (ie., land, building, fixture, machinery, supplies, vehicles, pre-opening expenses and opening inventory).

2. Daily operating costs, rising inventories, payroll, rent, taxes, advertising, accounts receivable, etc.

It is essential to know the sum of all these costs. You must prepare a cash flow forecast, which will give you a reasonable estimate of your cash requirements for the first 12 months. If you cannot do a cash flow forecast yourself, it would be best to hire someone to do it for you.

The money required to operate your business can come from several sources including your own savings or loans from friends, relatives, investors, chartered banks, credit unions, the Saskatchewan Opportunities Corporation, or the Business Development Bank of Canada. Other financial assistance may include lines of credit from your various suppliers.

Two Types of Borrowed Funds

Long term financing:
- Used to buy fixed assets such as buildings, machinery, and fixtures; paid back in equal monthly instalments

Short term financing:
- Used to pay for current assets such as inventory, accounts receivable, and other working capital requirements. Usually covered by a demand note at the bank, and fluctuating weekly or monthly depending on the need.

It is easier to borrow money by pledging fixed assets, so don't put all your equity into machinery or buildings; instead save it for working capital needs.

What lenders need to see:

- You can repay the loan out of normal business activities
- The loan is big enough to do the job
- A description of your project(s) in writing
- Cash flow projections for the first 12 months, including repayment plans
- Projected profit or loss for the first and second years
- List of stock and equipment
- List of assets you can offer as collateral
- Short history of your business experience
- Statement of your personal net worth

Cash Flow Forecasting

A cash flow forecast is your most useful tool to help ensure financial solvency. With this forecast, you try to predict all the funds that you will receive and disburse, and the resulting surplus or deficit. You take into account not only the operating and capital budgets, but also the ratio of cash sales to credit sales and the paying habits of your customers. To estimate cash outflow, you must also consider the promptness you intend to pay for your materials and merchandise.

By making a cash flow analysis you can estimate:

- How much cash will be needed to operate your business each month
- When you will need additional short term funds from the bank
- When you will have surplus funds to reduce your bank loans

This information can assist you in timing your capital expenditures more appropriately, accelerate collection of accounts receivable, ward off a cash shortage, plan short term borrowing well in advance and perhaps invest a temporary surplus.

Finding A Source Of Funds

The most common source of financing for small businesses is the chartered bank. To provide working capital, banks can provide short term loans, long term mortgage loans and loans against inventory or accounts receivable, etc.

Banks also offer a full range of banking services including personal and business deposit and loan accounts, buying and selling of foreign exchange, purchase and sale (or safekeeping) of securities and other valuables, letters of credit, and the provision of market and credit information in Canada and other countries.

Other leading sources of finance are the insurance companies, trust companies, credit unions, commercial credit and acceptance companies, venture capital loan companies, and factoring companies.

Equity capital represents the net value of the business since all other financing amounts to some form of borrowing which must ultimately be repaid. Also, business profits can be reinvested as additional financing once your business has started.

Leasing may also be considered as a source of funds. The interest rates are relatively high, but payments are deductible from income tax. Leasing arrangements are usually used for machinery, vehicles, and office equipment, where it is desirable to avoid heavy capital cost outlays.

Getting The Most From Your Bank

Bank Loans

Your involvement with the banking world begins even before you start your business. Develop a good working relationship with the bank of your choice from the very beginning. Faster and better services are supplied when a bank is familiar with its customers and their businesses. In that environment, suggestions for keeping a business financially healthy are more readily given, crisis borrowing can be avoided, and good loan planning can be developed.

Never surprise your banker with sudden or unplanned requests for funds.

Unless you are independently wealthy and insist on using only your own money, you will require financial aid from the bank in the form of a term loan for any of the following purposes:

- To assist in establishing your new business
- To purchase an existing business
- To purchase new equipment
- To provide additional working capital
- To provide funds to retire a bond issue or outstanding preferred stock

Dealing With Your Banker

Points to Keep in Mind

- Bankers are impressed only by your standards of management excellence. Experience counts heavily in planning, organizing, supervision, directing, control, development, and demonstrated success.
- Arrange your borrowing needs well in advance and keep time on your side. With time on your side and banks being in competition to attract top calibre business accounts, you may find the bank more willing to negotiate competitive terms, such as security margins, interest rates, and collateral requirements.
- Risk-taking must be a calculated endeavour not a speculative gamble. Remember, bankers are risk avoiders not risk-takers.
- Always put your loan request in writing and finalize all loan documents before making any other financial commitments.
- Do not borrow by way of overdraft unless your line of credit is established for such borrowing. Any verbal line of credit for recurring overdrafts should be formalized as soon as possible.
- Negotiate your fiscal credit needs at your year end while your financial statement is still correct. It may be tempting to anticipate that your next interim statement will improve six months later, only to find that you would have been better off with a reduced line of credit at the beginning of the year than to have none at all in the middle of a poor season.
- Keep yourself current on the prevailing lending attitudes so that you can adjust your own administration of receivables and collections accordingly.
- The only constant human element in your banking relationship is yourself. There is about an 80% chance the banker you are dealing with today will no longer be handling your account two years from now.
- There are countless instances where bank customers will casually sign just about anything while they are in the bank office. Read, understand, and retain copies of all banking documents before you sign.

Developing Good Bank Relationships

To develop good bank relationships:

- Find out the services your bank offers (location, hours, etc.) and, if practical, use the bank most of your customers and potential customers use.
- Give the bank manager all the information he requires for head office approval of the loan.
- Annually arrange a line of credit to meet peak requirements, but borrow only what is necessary, when necessary.
- Adjust the loan level as actual requirements change.
- Make realistic repayment commitments.
- Avoid overdrafts.
- Be prepared to provide security for the loan.

What a Lender Needs to Know

The lender will require the following information:

- Amount of loan and period for which it is needed;
- Reason for the loan;
- Brief history of the company;
- Financial statements of the business for the past three years;
- Details of current financial position including specific data on:
    - Accounts receivable
    - Accounts payable
    - Inventory
    - Fixed assets
    - Short and long term debt
    - Special accounts
- Facts about company operation
- Facts about management and officers
- Details of the project to be financed
- Cash flow statements for the next 12 months (perhaps indicating an operating line of credit)
- Projected financial statements (indicating present requirements)
- The security you're offering

Evaluation by a Lender

Your application will be evaluated on:

- Your debt paying record
- Ratio of debt to net worth
- Past earnings and potential future earnings of the company
- Value and condition of the collateral for security
- Your character and management ability
- The prospect that the business opportunity is too volatile
- The fact that you have prepared a business plan

Collateral Accepted by a Lender

The lender will accept the following as collateral:

- Granting of a floating charge debenture
- Personal guarantees of officers of limited companies
- Co-signers or guarantors
- Pledging of inventories
- Assignment of accounts receivable, leases, savings, warehouse receipts, or securities
- Pledging of cash surrender value of life insurance
- Agreement to restrict salaries, drawings and loan payments of proprietors, partners, and principal shareholders

Restrictions Imposed on the Borrower

Some common restrictions imposed on the borrower are:

- Maintain working capital at a specified amount
- Furnish financial statements annually or semi-annually
- Share structure
- Limit dividends
- Sell the company or the assets
- Create no new debt except as agreed
- Provide no guarantees on behalf of others
- Restrict drawings or benefits to shareholders

Security for Term Loans

The following will serve as security for term loans:

- Mortgage on property or chattel
- Floating charge debenture on other assets
- Personal guarantees

CASHFLOW PLANNING MODEL

Introduction

The cashflow planning model has been designed to provide the user with an example of a basic cash flow. It will help provide a better understanding the following:

- The preparation of a cash flow forecast
- The evaluation of different financial options
- A format which is generally required by financial institutions when considering a loan proposal.

This package provides a sample forecast example together with blank worksheets that can be completed.

Basic Operations

This model is comprised of three pages. They are as follows:

- Page 1 - Initial Project Costs and Initial Project Funding
- Page 2 - Projected Sales Summary
- Page 3 - Projected Cash Flow

Getting Started

Follow the attached instructions and example to enter the information for your projections.

Each section of the cash flow forecast is listed alphabetically. For example: A. Project Name, B. Initial Project Costs, etc. You will note that there are also corresponding sections: A., B., C., etc. in the left hand margin of each page of the sample forecast. These margins contain instructions on how to complete each particular section.

Sales Assumption Decision

This model will allow you to break your product groupings into six different Sales Categories. Not all need to be used. Break the sales down only to the level that makes the most sense.

Projection Summary

Once you have entered all the information, your first draft of the cash flow projection should be complete. You can now go back into your assumptions and make adjustments as you evaluate your options.

Remember to keep your plan up-to-date. Periodically review, and if necessary, revise your plan. Compare actual results to your original estimates and make adjustments as you go along.

Example

Page 1 - Initial Project Costs and Initial Project Funding - Year 1

November-01

A.

Enter:

-Project Name (eg. J.W & B.'s Gas Bar).
-Period Covered (eg. Mar.1/___ - April 30/___).
-Date the projections were prepared.

A. PROJECT NAME: J.W. & B.'s Gas Bar PERIOD: March 1/___ - April 30/___ DATE PREPARED:

B.

Enter: The Initial Project Costs for the start of the business by item:

Instructions	Line	B. INITIAL PROJECT COSTS	
-Land/Bldg: If purchasing or renovating your own bldg.	1.0	LAND/BUILDING COST	20000
-Leasehold Improvements: If renovating a rented facility.	1.1	LEASEHOLD IMPROVEMENT	0
-Equipment & Furniture Costs	1.2	EQUIPMENT/FURNITURE	10000
-Other Assets: Including Goodwill or Franchise Fees.	1.3	OTHER ASSET	1000
-Vehicle: If purchasing a vehicle.	1.4	VEHICLE COST	10000
-Opening Inventory (at cost)	1.5	INVENTORY (OPENING COST)	5000
-Other Start-Up Expenses: from the "Opening" column, Page 3, Section H, total Lines 8.5 to 10.3.	1.6	OTHER START UP EXPENSES	4000
-Opening Working Capital: Surplus Cash on Hand to start.	1.7	OPENING WORKING CAPITAL	5000
	1.8	TOTAL PROJECT COST	55000

Note: Ensure any contributed equipment, vehicles, inventory, etc., that is also to be shown as contributed equity under "Initial Project Funding" is included in the "Initial Project Costs".

C.

Enter: The Initial Project Funding, by source for the start of the business by item:

Instructions	Line	C. INITIAL PROJECT FUNDING	
-Opening Equity: which may be made up of cash or personal assets being contributed to the project.	2.0	EQUITY	
		-CASH	15000
		-CONTRIBUTED ASSETS	5000
-Loans: By type of Loan, (e.g. Bldg. Mtge., Equipment)	2.1	LAND /BLDG MTG - LOAN #1	15000
	2.2	EQUIPMENT LOAN - LOAN #2	15000
-Other Loan: Opening Inventory, start up costs, etc.	2.3	OTHER LOAN	5000
-Line of Credit: If there is a cash shortfall between the Total Project Costs (Line 1.8) and the Total Project Funding (Lines 2.0 to 2.3), enter the difference on Line 2.4. Remember, the opening Working Capital (Line 1.7) or the opening Line of Credit (Line 2.4) may not be sufficient for the total year.	2.4	LINE OF CREDIT (L/C)	0
	2.5	TOTAL PROJECT FUNDING	55000

NOTE: THE TOTAL INITIAL PROJECT COSTS (LINE 1.8) MUST EQUAL THE TOTAL INITIAL PROJECT FUNDING (LINE 2.5).

#5890 - Cashflow Planning Model
Saskatchewan Industry and Resources
Business and Co-operative Services
04/02

Page 2 - Projected Sales Summary - Year 1

D.

Enter:

-Your specific sales forecasts by category and by month for the first year, and total them by month by category.
-It is now possible to calculate a percentage for how much each category contributes to the total sales, and to calculate how much the sales each month contribute to the total years sales (as a %).

-Enter Total Sales (Line 3.6) onto Page 3, Line 6.0.

E.

Deduct:

-The cost of the inventory used to generate the retail sales, by category.

-Calculate and total the Cost Of Sales (C.O.S.), ie., your wholesale price of the goods used in the sales by category and by each month.
-Note that there may not always be a direct material cost to the sale, for example,as in Labour (Line 4.2).

-Total Lines 4.0 to 4.5 and enter on Line 4.6.
The average Cost of Sales % is Line 4.6 divided by Line 3.6, eg., 60023 / 90670 = 66.2%

F.

Equals:

-The Gross Margin, is the difference between the Total Sales (Line 3.6) and the Cost of Sales (Line 4.6).
-The Gross Margin dollars are the dollars that are now left from the sales (after allowing for the inventory replacement costs), that are now to be used to pay the rest of the expenses of operating the business.

D.	YEAR 1 SALES	% BY CATEGORY	MAR	APR.	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	TOTAL
3.0	Gas Sales	39.3%	6000	6600	7260	7986	8785	9663	8697	7827	7044	6340	5706	5135	87043
3.1	Parts Sales	26.2%	4000	4400	4840	5324	5856	6442	5798	5218	4696	4227	3804	3424	58029
3.2	Labour	19.7%	3000	3300	3630	3993	4392	4832	4348	3914	3522	3170	2853	2568	43522
3.3	Confectionary	3.3%	500	550	605	666	732	805	725	652	587	528	475	428	7254
3.4	Food	9.8%	1500	1650	1815	1997	2196	2416	2174	1957	1761	1585	1426	1284	21761
3.5	Gifts/Other	1.6%	250	275	303	333	366	403	362	326	294	264	238	214	3627
3.6	TOTAL SALES	100.0%	15250	16775	18453	20298	22328	24560	22104	19894	17904	16114	14503	13052	221235
	Monthly Sales %		6.9%	7.6%	8.3%	9.2%	10.1%	11.1%	10.0%	9.0%	8.1%	7.3%	6.6%	5.9%	100.0%
E.	COST OF SALES (% BY CATEGORY)														
4.0	Gas Sales	90.0%	5400	5940	6534	7187	7906	8697	7827	7044	6340	5706	5135	4622	78339
4.1	Parts Sales	75.0%	3000	1300	3630	3993	4392	4832	4348	3914	3522	3170	2853	2568	43522
4.2	Labour	0.0%	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3	Confectionary	70.0%	350	385	424	466	512	564	507	457	411	370	333	300	5078
4.4	Food	50.0%	750	825	908	998	1098	1208	1087	978	881	792	713	642	10880
4.5	Gifts/Other	65.0%	163	179	197	216	238	262	236	212	191	172	155	139	2357
4.6	TOTAL COST OF SALES	63.4%	9663	10629	11692	12861	14147	15562	14005	12605	11344	10210	9189	8270	140178
F. 5.0	TOTAL GROSS MARGIN	36.6%	5588	6146	6761	7437	8181	8999	8099	7289	6560	5904	5314	4782	81059

Page 3 - Projected Cashflow - Year 1

G.

-Enter Total Sales from Line 3.6 on Page 2.

-Decide on how much of the sales are cash and enter on Line 6.1. Decide on how much will be credit and when they will be collected, ie., in 30, 60, or 90 days and enter on Lines 6.2 to 6.4.
-Enter Other Accounts Received on Line 6.5.
-Enter Other Income sources on Line 6.6.
-Enter Loans from Lines 2.1 to 2.3 (Page 1) onto Lines 6.7 to 6.9.

-Enter Total Equity from Line 2.0 on Page 1.
-Total Lines 6.1 to 7.0 and enter on Line 7.1.

H.

-Enter Opening Inventory from Line 1.5. (Page 1) and Line 4.6 from Page 2 for monthly inventory purchases.
-Enter Total of Lines 1.0 to 1.4 from Page 1.
-Enter Loan repayments (P&I) on Lines 8.2 to Line 8.4.

-Cost of service estimates from a lawyer/accountant.
-Contact newspapers, radio, printers, etc.
-Allowance for bad cheques or bad credit customers.
-Cheque cashing and bank card charges from banks.
-Municipal licence or business assessment.
-Supplier freight costs.
-Insurance agents.
-Allowance for unknown costs.
-Stationary, bags, cash register supplies, etc.
-Municipal Taxes if the property is owned.
-Monthly cost of building or equipment rent/lease.
-Equipment, vehicle, or facility repairs/maintenance.
-Small tools replacement, cleaning supplies, etc.
-Telephone, fax, or computer line charges.
-Heat, light, power, water.
-Fuel for vehicles.
-Owner or manager wages.
-Staff wages.
-U.I.C. / C.P.P. / W.C.B. / Holiday Pay
-Total Lines 8.0 to 10.3 and enter on Line 10.4.

-Subtract Line 10.4 from Line 7.1.
-Enter Line 11.3 or 11.4 from the previous month.
-Add Line 11.0 and Line 11.1 and enter on Line 11.2.
-If Line 11.2 is negative, enter on Line 11.3.

-If Line 11.2 is positive, enter on Line 11.4.

G.		OPENING	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	TOTAL
6.0	TOTAL SALES		15250	16775	18453	20298	22328	24560	22104	19894	17904	16114	14503	13052	221235
6.1	Cash Sales		7625	8388	9226	10149	11164	12280	11052	9947	8952	8057	7251	6526	110617
6.2	30 Day R.O.A.			3813	4194	4613	5074	5582	6140	5526	4973	4476	4028	3626	52046
6.3	60 Day R.O.A.				3050	3355	3691	4060	4466	4912	4421	3979	3581	3223	38736
6.4	90 Day R.O.A.					763	839	923	1015	1116	1228	1105	995	895	8878
6.5	Other R.O.A.														0
6.6	Other Income														0
6.7	Loan #1	15000													15000
6.8	Loan #2	15000													15000
6.9	Other Loan	5000													5000
7.0	Equity	20000													20000
7.1	TOTAL CASH IN	55000	7625	12200	16470	18880	20767	22844	22673	21501	19575	17617	15855	14270	265277
H.	LESS:														
8.0	Purchases	5000	9663	10629	11692	12861	14147	15562	14005	12605	11344	10210	9189	8270	145176
8.1	Assets Purchased	41000													41000
8.2	Loan#1-Princ.+Int.		300	300	300	300	300	300	300	300	300	300	300	300	3600
8.3	Loan#2-Princ.+Int.		300	300	300	300	300	300	300	300	300	300	300	300	3600
8.4	Other Loan Paid (P&I)		100	100	100	100	100	100	100	100	100	100	100	100	1200
8.5	Accounting & Legal	500	200											800	1500
8.6	Advertising	300	153	168	185	203	223	246	221	199	179	161	145	131	2514
8.7	Bad Debts	0													0
8.8	Bank Charges	100	60	60	60	60	60	60	60	60	60	60	60	60	820
8.9	Bus. Tax, Lic.	600													600
9.0	Delivery/Freight	0													0
9.1	Insurance	1000													1000
9.2	Miscellaneous	450	50	50	50	50	50	50	50	50	50	50	50	50	1050
9.3	Office/Store Supply	100	50	50	50	50	50	50	50	50	50	50	50	50	700
9.4	Property Taxes	0													0
9.5	Rent	0	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000
9.6	Repairs & Maint.	0	300	300	300	300	300	300	300	300	300	300	300	300	3600
9.7	Shop Supplies	200	100	100	100	100	100	100	100	100	100	100	100	100	1400
9.8	Telephone	50	125	125	125	125	125	125	125	125	125	125	125	125	1550
9.9	Utilities	100	500	500	500	500	500	500	500	500	500	500	500	500	6100
10.0	Vehicle	600	50	50	50	50	50	50	50	50	50	50	50	50	1200
10.1	Wages-Management	0	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	12000
10.2	-Employees	0	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	18000
10.3	Wage Benefits		375	375	375	375	375	375	375	375	375	375	375	375	4500
10.4	TOTAL CASH OUT	50000	15826	16607	17687	18874	20180	21618	20036	18614	17333	16181	15144	15011	263110
11.0	NET CASH GAIN (L.)	5000	-8201	-4407	-1217	6	588	1227	2636	2888	2241	1436	711	-741	2167
11.1	CASH AT START	0	5000	-3201	-7607	-8824	-8818	-8231	-7004	-4368	-1480	761	2197	2909	0
11.2	CUMULATIVE CASH	5000	-3201	-7607	-8824	-8818	-8231	-7004	-4368	-1480	761	2197	2909	2167	2167
11.3	TOTAL L/C REQU'D.	0	3201	7607	8824	8818	8231	7004	4368	1480	0	0	0	0	0
11.4	SURPLUS CASH	5000	0	0	0	0	0	0	0	0	761	2197	2909	2167	2167

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Worksheet

Page 1 - Initial Project Costs and Initial Project Funding - Year 1

A. PROJECT NAME: PERIOD: DATE PREPARED:

B. INITIAL PROJECT COSTS

LAND/BUILDING COST ________
LEASEHOLD IMPROVEMENT ________
EQUIPMENT/FURNITURE ________
OTHER ASSET ________
VEHICLE COST ________
INVENTORY (OPENING COST) ________
OTHER START UP EXPENSES ________
OPENING WORKING CAPITAL ________

TOTAL PROJECT COST

C. INITIAL PROJECT FUNDING

EQUITY
-CASH ________
-CONTRIBUTED ASSETS ________
LAND /BLDG MTG - LOAN #1 ________
EQUIPMENT LOAN - LOAN #2 ________
OTHER LOAN ________
LINE OF CREDIT (L/C) ________

TOTAL PROJECT FUNDING

NOTE: THE TOTAL INITIAL PROJECT COSTS MUST EQUAL THE TOTAL INITIAL PROJECT FUNDING.

Page 2 - Projected Sales Summary - Year 1

D. YEAR 1 SALES	%	MTH.1	MTH.2	MTH.3	MTH.4	MTH.5	MTH.6	MTH.7	MTH.8	MTH.9	MTH.10	MTH.11	MTH.12	TOTAL
Category														
TOTAL SALES														
Monthly Sales %														
E. COST OF SALES (% BY CATEGORY)														
TOTAL COST OF SALES														
F. TOTAL GROSS MARGIN														

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Page 3 - Projected Cashflow - Year 1

	OPENING	MTH.1	MTH.2	MTH.3	MTH.4	MTH.5	MTH.6	MTH.7	MTH.8	MTH.9	MTH.10	MTH.11	MTH.12	TOTAL
G. TOTAL SALES														
Cash Sales														
30 Day R.O.A.														
60 Day R.O.A.														
90 Day R.O.A.														
Other R.O.A.														
Other Income														
Loan #1														
Loan #2														
Other Loan														
Equity														
TOTAL CASH IN														
H. LESS:														
Purchases														
Assets Purchased														
Loan#1-Princ.+Int.														
Loan#2-Princ.+Int.														
Other Loan Paid (P&I)														
Accounting & Legal														
Advertising														
Bad Debts														
Bank Charges														
Bus. Tax, Lic.														
Delivery/Freight														
Insurance														
Miscellaneous														
Office/Store Supply														
Property Taxes														
Rent														
Repairs & Maint.														
Shop Supplies														
Telephone														
Utilities														
Vehicle														
Wages-Management														
-Employees														
Wage Benefits														
TOTAL CASH OUT														
NET CASH GAIN (L.)														
CASH AT START														
CUMULATIVE CASH														
TOTAL L/C REQU'D.														
SURPLUS CASH														

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BUSINESS PLAN FOR SMALL MANUFACTURERS

Summary

A business plan can provide the owner-manager or prospective owner-manager of a small manufacturing firm with a pathway to profit. This publication is designed to help an owner-manager in drawing up a business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my company? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer such questions for you. As the owner-manager you have to answer them and draw up your business plan. The pages of this publication are a combination of text and workspaces so you can write in the information you gather in developing your business plan.

A Note On Using This Publication

It takes time, energy and patience to draw up a satisfactory business plan. Use this publication to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes. Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it unexpectedly crops up later.

If you leave out or ignore enough items, your business is headed for disaster. Keep in mind, too, that your final goal is to put your plan into action. More will be said about this step near the end of this publication.

What's In This For Me?

Time was when an individual could start a small business and prosper provided you were strong enough to work long hours and had the knack for selling more than the raw materials or product cost. Small stores, grist mills, livery stables, and blacksmith shops sprang up in many crossroad communities as Canadians applied their energy and native intelligence to settling the continent. Today this native intelligence is still important. But by itself the common sense for which Canadians are famous will not insure success in a small business. Technology, the marketplace, and even people themselves have become more complicated than they were 100, or even 25, years ago.

Common sense must be combined with new techniques in order to succeed in the space age. Just as one would not think of launching a manned space capsule without a flight plan, so one should not think of launching a new small manufacturing business without a business plan.

A business plan is an exciting tool that you can use to plot a course for your company. Such a plan is a logical progression from a common sense starting point to a common sense ending point.

To build a business plan for your company, an owner-manager needs only to think and react as a manager to questions such as: What product is to be manufactured? How can it best be made? What will it cost me? Who will buy the product? What profit can I make?

Why Am I In Business?

If you are like most business people, you're in business to make money and to be your own boss. But, few business people would be able to say that those are the only reasons. The money that you will make from your business will seldom seem like enough for all the long hours, hard work, and responsibility that go along with being the boss.

Then, why do so many stay in business?

This is hardly the time for philosophy. If you're starting or expanding a business, you have enough to think about. But, whether or not you even think about it, the way you operate your business will reflect your business philosophy.

Consider this. An owner-manager inspects a production run and finds a minor defect. Even though in nine out of ten cases the user of the product would not notice the defect, the owner decides to scrap the entire run.

What does this tell you? It shows that he (or she) gets an important reward from doing what is the right thing - in this case, providing a quality product.

The purpose of this section is not to play down the importance of making a profit. Profits are important. They will keep your business going and attract additional capital into your business. But you should be aware that there are other rewards and responsibilities associated with having your own business.

In your planning, you might give some thought to your responsibilities to employees, community, stockholders, customers, product, and profit. Jot these down. Later when you have lined up your management team, discuss this subject with them. This type of group thinking will help everyone, including yourself, understand the basic purposes for each day's work.

Even though you may not advertise it through your market, the way you operate your business will reflect your business philosophy.

What Business Am I In?

In making your business plan, the next question to consider is: What business am I really in? At first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are really in.

The experience of an old line manufacturing company provides an example of dealing with the question: What business am I really in? In the early years of this century, the founder of the company had no trouble answering the questions. As he put it, "I make and sell metal trash cans." This answer held true for his son until the mid-1950's when sales began to drop off. After much thought, the son decided he was in the container business.

Based on this answer, the company dropped several of its lines of metal trash cans, modified other lines, and introduced new products, such as shipping cartons used by other manufacturers and government agencies.

What business am I in? (Write your answer here) ____

____

Asking questions like: What does your product do for your customer? Why? When? Where? How? What doesn't it do? What should it do later but doesn't do now? These can lead to the ultimate conclusion of what business you're in and possibly direct you to new lines of products or enterprises.

Marketing

When you have decided what business you're really in, you have just made your first marketing decision. Now you must face other marketing considerations.

Successful marketing starts with you, the owner-manager. You have to know your product, your market, your customers, and your competition. Before you plan production, you have to decide who your market is, where it is, why they will buy your product, whether it is a growth or static market, if there are any seasonal aspects of the market, and what percentage of the market you will shoot for in the first, second, and third year of operation. Your production goals and plans must be based on and be responsive to this kind of fact finding (market feasibility and research).

The narrative and work blocks that follow are designed to help you work out a marketing plan. Your objective is to determine what needs to be done to bring in sales dollars.

In some directories, marketing information is listed according to the North American Industry Classification System (NAICS) of the product and industry. The NAICS classifies firms by the type of activity they are engaged in, and it is used to promote the uniformity and comparability of statistical data relating to market research. When you begin your market research, you may find it useful to have already classified your products according to this code.

The North American Industry Classification System is available for sale in paper version and CD-ROM. Prices are approximately $45 for the paper version, (catalogue number 12-501-XPE for English and 12-501-XPF for French) and $100 for CD-ROM (catalogue number 12-501-XCE for English and 12-501-XCF for French). Please be advised that prices are subject to change. For more information contact:

Paper version:
Statistics Canada, Dissemination Division, Circulation Management
120 Parkdale Avenue
Ottawa, Ontario K1A 0T6
Tel: (613) 951-7277 or 1-800-700-1033
Fax: (613) 951-1584 or 1-800-889-9734
Email: order@statcan.ca
Web Site: http://www.statcan.ca

CD-ROM:
Secretary, Standards Division 12A8
Jean Talon Building
Ottawa, Ontario K1A 0T6
Tel: (613) 951-8576
Fax: (613) 951-8578
Email: standards@statcan.ca

Product	**NAICS Canada No.**
1. ______________________	______________________
2. ______________________	______________________

Market Area. Where and to whom are you going to sell your product? Describe the market area you will serve in terms of geography and customer profile:

Who Are Your Competitors? List your principal competitors selling in your market area, estimate their percentage of market penetration and dollar sales in that market, and estimate their potential loss of sales as a result of your entry into the market.

Name of Competitor and Location	% Share of Market	Estimated Sales	Estimated Sales Loss Because of You
1.		$	
2.		$	
3.		$	

How Do You Rate Your Competition? Try to find out the strengths and weaknesses of each competitor. Then write your opinion of each of your principal competitors, their principal products, facilities, marketing characteristics, and new product development or adaptability to changing market conditions.

Have any of your competitors recently closed operations or have they withdrawn from your market area? (State reasons if you know them):

Advantages Over Competitors. On what basis will you be able to capture your projected share of the market? Below is a list of characteristics which may indicate the advantages your product(s) enjoy over those offered by competitors. Indicate those advantages by placing a check in the proper space. If there is more than one competitor, you may want to make more than one checklist. Attach these to the worksheet.

Analyze each characteristic. For example, a higher price may not be a disadvantage if the product is of higher quality than your competitor's. You may want to make a more detailed analysis than is presented here. If you wish to spell out the specifics of each characteristic and explain where your product is disadvantaged and how this will be overcome, attach it to this worksheet. Also, the unique characteristics of your product can be the basis for advertising and sales promotion.

Remember the more extensive your planning, the more your business plan will help you.

Product(s)	Product No. 1	Product No. 2
Price	( )	( )
Performance	( )	( )
Durability	( )	( )

Versatility	☐	☐
Speed or accuracy	☐	☐
Ease of operation or use	☐	☐
Ease of maintenance or repair	☐	☐
Ease or cost of installation	☐	☐
Size or weight	☐	☐
Styling or appearance	☐	☐

Other characteristics not listed:

______________________________	☐	☐
______________________________	☐	☐

What, if anything, is unique about your product? ______________________________________

____

Distribution. How will you get your product to the ultimate consumer? Will you sell it directly through your own sales organization or indirectly through manufacturers' agents, brokers, wholesalers, and so on. (Use the blank to write a brief statement of your method of distribution and manner of sales):

____

____

What will this method of distribution cost you? ______________________________________

____

Do you plan to use special marketing, sales or merchandising techniques? Describe them here:

____

List your customers by name, the total amount they buy from you, and the amount they spend for each of your products.

Names of Principle Customers	Total Purchasing Volume	By Product(s)	% of Your Sales
______________________________	______	______	______

Market Trends. What has been the sales trend in your market area for your principal product(s) over the last 5 years? What do you expect it to be 5 years from now? You should indicate the source of your data and the basis of your projections.* Industry and product statistics are usually indicated in dollars. Units, such as numbers of customers, numbers of items sold, etc., may be used, but also relate your sales to dollars.

	Product	Source of Data	Sales 5 Years Ago	Current Sales	Projected Sales in 5 Years
1.	______	______	______	______	______
2.	______	______	______	______	______

List the name and address of trade associations which service your industry and indicate whether or not you are a member.

____

List the name and address of other organizations, governmental agencies, industry associations, etc., from which you intend to obtain management, technical, economic, or other types of information and assistance.

____

Share of the Market. What percentage of total sales in your market area do you expect to obtain for your products after your facility is in full operation?

Products or Products Category	Local Market (%)	Total Market (%)
____________________	______________	______________

Sales Volume. What sales volume do you expect to reach with your products?

	Total Sales	Product(s) 1	Product(s) 2
First Year	$ __________	$ __________	$ __________
Units	__________	__________	__________
Second Year	$ __________	$ __________	$ __________
Units	__________	__________	__________
Third Year	$ __________	$ __________	$ __________
Units	__________	__________	__________

---

*This is a marketing research problem. It will require you to do some digging in order to come up with a market projection. Trade associations will probably be your most helpful source of information. Statistics Canada publishes a great deal of useful statistics.

Production

Production is the work that goes on in a factory that results in a product. In making your business plan, you have to consider all the activities that are involved in turning raw materials into finished products. The work blocks that follow are designed to help you determine what production facilities and equipment you need.

Manufacturing Operations. List the basic operations, for example, cut and sew, machine and assemble, etc., that are needed in order to make your product.

____

Raw Materials. What raw materials or components will you need, and where will you get them?

Material/ Component	Source	Price	Comments (location, delivery, financing, etc.)
		$	
		$	
		$	

What amount of raw materials and/or components will you need to stock?

____

Are there any special considerations concerning the storage requirements of your raw material? For example, will you use chemicals which can only be stored for a short time before they lose their potency?

____

Equipment. List the equipment needed to perform the manufacturing operations. Indicate whether you will rent or buy the equipment and the cost to you.

Equipment	Buy	Rent	Your Cost
			$
			$
			$

Your equipment facilities, and method of operation must comply with Occupational Health and Safety.

Labour Skills. List the labour skills needed to run the equipment.

____

List the indirect labour, for example, material handlers, stockmen, janitors, and so on, that is needed to keep the plant operating.

If persons with these skills are not already on your payroll, where will you get them?

Space. How much space will you need to make the product? Include restrooms, storage for raw materials and for finished products, and employee parking facilities if appropriate. Are there any local ordinances you must comply with?

Do you own this space? Yes ______ No ______
Will you buy this space? Yes ______ No ______
Will you lease this space? Yes ______ No ______
How much will it cost you? ____________________

Overhead. List the overhead items which will be needed in addition to indirect labour and include their cost.

Examples are: tools, supplies, utilities, office help, telephone, payroll taxes, holidays, vacations, and salaries for your key people (sales manager, plant manager, and foreman).

How Much Money Is Needed?

Money is a tool you can use to make your plan work. Money is also a measuring device. You will measure your plan in terms of dollars, and outsiders such as bankers and other lenders will do the same.

When you determine how much money is needed to start (or expand) your business, you can decide whether or not to move ahead. If the cost is greater than the profits that the business will make, there are two things to consider. First, many businesses do not show a profit until the second or third year of operation. If this looks like the case with your business, you will need the plans and financial reserves to carry you through this period. On the other hand, maybe you would be better off putting your money into stocks, bonds, or other reliable investments rather than taking on the time consuming job of managing a small business.

Like most businesses, your new business or expansion will require a loan. The burden of proof in borrowing money is upon the borrower. You have to show the banker or other lender how the borrowed money will be spent. Even more important, the lender needs to know how and when you will repay the loan. To determine whether or not your plan is economically feasible, you need to pull together three sets of figures:

- Expected sales and expense figures for 12 months.
- Cash flow figures for 12 months.
- Current balance sheet figures.

Then visit your banker. Remember, your banker or lender is your friend, not your enemy so meet regularly. Share with your banker all of the information and data you possess. If the lender is ready to help you, he or she needs to know not only your strengths but also your weaknesses.

Expected Sales and Expenses Figures

To determine whether or not your business can make its way in the market place, you should estimate your sales and expenses for 12 months.

Cash Flow Figures. Estimates of future sales will not pay an owner-manager's bills. Cash must flow into the business at proper times if bills are to be paid and a profit realized at the end of the year. To determine whether your projected sales and expense figures are realistic, you should prepare a cash flow forecast for the 12 months covered by your estimates of sales and expenses.

Current Balance Sheet Figures. A balance sheet shows the financial conditions of a business as of a certain date. It lists what a business has, what it owes, and the investment of the owner. A balance sheet enables you to see at a glance your assets and liabilities.

Getting The Work Done

Your manufacturing business is only part way home when you have planned your marketing and production. Organization is needed if your plant is going to produce what you expect it to.

In most situations, you as the owner-manager cannot do all the work yourself. In order for your operation to run smoothly, you will have to delegate work, responsibility, and authority. A tool that may be helpful when dispersing this responsibility is the organization chart. The organization chart shows at a glance who is responsible for the major activities of a business. Keep in mind that no matter how your operation is organized, it is important that you stay in control of the financial management.

It is also important that you recognize your weaknesses early on. There are many professionals out there who are qualified to handle your business concerns. Depending on your situation, you may consider hiring a consultant on an as-needed basis, hiring permanent personnel, or obtaining a company lawyer and/or an accountant.

Making Your Plan Work

To make your business plan work you will need continuous feedback. For example, the year end profit and loss (income) statement shows whether your business made a profit or loss over the past 12 months. While this document provides valuable information, it is only received once a year. In today's fast pace business world you can no longer wait 12 months to get the score. Feedback must be received on frequent intervals. One way in which a company can obtain these updates is to produce profit/loss statements at the end of each month or at the end of each quarter. Once this information is received, however, it is up to management to ensure that cash flow projections and financial decisions are updated.

A management control system that provides your key employees with current information should be set up to ensure that deviations from approved policies, procedures and/or practices are corrected in time. The management control system should provide precise information on inventory, production, quality, sales, collection of accounts receivable, and disbursements. The simpler the system, the better.

Inventory Control. The purpose of controlling inventory is to provide maximum service to your customers as well as smooth production for yourself. Your goal should be to achieve a rapid turnover on your inventory. The fewer dollars tied up in raw materials and finished goods inventory, the better. In other words, the faster you regain your inventory investment through sold product, the faster you can reinvest this capital to meet your additional consumer needs.

In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping inventory records, and the cost of receiving and storing raw materials.

Production. In preparing this business plan, you have estimated the cost figures for your manufacturing operation. Use these figures as the basis for standards against which you can measure your day-to-day operations to make sure that the clock does not nibble away at profits. These standards will help you to keep machine time, labour man-hours, process time, delay time, and down time within your projected cost figures. Periodic production reports will allow you to keep your finger on potential drains on your profits and should also provide feedback on your overhead expenses.

Quality Control. Poorly made products can cause a company to lose customers. When a product fails to perform satisfactorily, shipments can be held up, inventory can increase, and a severe financial strain can result. Depending upon your type of production system, checkpoints, reports, etc. within your quality control system must be detailed. When creating your quality control system, keep in mind that its purpose is to answer two questions: What needs to be done to ensure that work is done correctly the first time? Is there a need to do extensive quality control on raw materials? If your answer is yes to the second of these questions, keep in mind that this may be an added expense that you must consider.

Sales. To keep on top of sales, you will need answers to questions, such as: How many sales were made? What was the dollar amount? What products were sold? At what price? What delivery dates were promised? What credit terms were given to customers?

It is also important that you set up an effective collection system for accounts receivable, so that you do not tie up your capital in aging accounts.

Disbursements. Your management controls should provide information about what your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You need to know that major items such as paying bills on time so you get the supplier's discount are being handled according to policy. Your review system should allow you the opportunity to make decisions on the use of your funds. This way you can be on top of emergencies. Your system should also inform you that tax moneys, such as payroll income tax deductions, are set aside and paid out at the proper time.

Break-Even. Break-even analysis is a management control device, which shows what level your sales must be at in order to break-even on your costs with NO profit and NO loss.

When preparing the start-up or expansion of a manufacturing business, you should determine at what level sales must be in order to pay off the cost of production. By doing this, you will have a better idea of how long it will be before you can expect a profit.

Profit depends on sales volume, selling price, and costs. So, to figure your break-even point, first separate your fixed costs, such as rent or depreciation allowance, from your variable costs per unit, such as direct labour and materials.

The formula is:

$$\text{break-even volume} = \frac{\text{total fixed costs}}{\text{selling price-variable costs per unit}}$$

For example, Ajax Plastics has determined its fixed costs to be \$100,000 and variable costs to be \$50 per unit. If the selling price per unit is \$100, than Ajax's break-even volume is

$$\text{break-even volume} = \frac{\$100{,}000}{\$100 - \$50} = 200 \text{ units}$$

Earlier you estimated your expected sales for each product and total sales. Compute the break-even point for each.

Product 1: __________ Product 2: __________ Total Sales: __________

Keeping Your Plan Up To Date

The best made business plan gets out of date because conditions change. Sometimes the change is within your company. For example, several of your skilled operators quit their jobs. Sometimes the change is with customers. Their desires and tastes shift. For example, a new idea can sweep the country in 6 months and die overnight. Sometimes the change is technological as when new raw materials and components are put on the market.

In order to adjust a business plan to account for such changes, an owner-manager must:

- Be alert to the changes that come about in your company, in your industry, in your market, and in your community.
- Check your plan against these changes.
- Determine what revisions, if any, are needed in your plan.

You must be able to delegate parts of this work. For example, you might assign your shop foreman the task of watching for technical changes as reported in trade journals for your industry. Or you might expect your sales manager to keep you abreast of significant changes that occur in your markets.
But you cannot delegate the hardest part of this work. You cannot delegate the decisions as to what revision will be made to your plan. As owner-manager you have to make those judgements on an ongoing basis.

When judgements are wrong, cut your losses as soon as possible and learn from the experience. The mental anguish caused by wrong judgement is part of the price you pay for being your own boss. You get your rewards from the satisfaction and profits that result from correct judgements. Sometimes, serious problems can be anticipated and a course of action planned. For example, what if sales are 25 percent lower than you anticipated, or costs are 10 percent higher? You have prepared what you consider a reasonable budget. It might be a good idea to prepare a "problem budget", based on either lower sales, higher costs, or a combination of the two.

You will also have to exercise caution if your sales are higher than you anticipated. The growth in sales may only be temporary. Plan your expansion. New equipment and additional personnel could prove to be crippling if sales return to a previous lower level.

Keep in mind that few owner-managers are right 100 percent of the time. They can improve their batting average by operating with a business plan and by keeping that plan up to date.

For more information or guidelines on preparing a business plan, you may want to try the following Web sites:

• Interactive Business Planner	**http://www.cbsc.org/ibp**
• Royal Bank – Tools for Business	**http://www.royalbank.com/business/tools/bigidea.html**
• Strategic Business Planning Co.	**http://www.bizplan.com**
• TD Business Planner	http://www.tdcanadatrust.com/smallbusiness/planner.jsp

Source: U.S. Small Business Administration

BUSINESS PLAN FOR RETAILERS

Summary

A good business plan provides the small retail firm with a pathway to profit. This publication is designed to help an owner-manager develop a sound business plan.

To profit in business, you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my store? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

As the owner-manager of a small business, you must have answers to the above questions if you are going to write a business plan. This publication is a combination of text and suggested analysis that was designed to help you organize the information you have gathered for the development of your business plan. The material contained within this handout will help ensure that your business plan flows smoothly from beginning to end.

What Is A Business Plan?

The success of your business depends largely on the decisions you make. A business plan allocates resources and measures the results of your actions thereby helping you to set realistic goals and make logical decisions for your business.

You may be thinking, "Why should I spend my time drawing up a business plan? What's in it for me?" If you have never written up a business plan before, you are right in wanting to hear about its possible benefits before you do the work.

A Business Plan:

- Acts as a guide for day-to-day operations as well as long-term strategic planning.
- Illustrates what actions can be taken should your business encounter unavoidable environmental and/or economic conditions.
- Provides your financial lender with a more complete understanding of your business, thereby increasing your chances of obtaining a loan.
- Acts as an illustration of the companies operations and goals for your staff, suppliers, and others.
- Increases your ability as an owner-manager to make judgements by giving you practice in figuring out problems, promotional opportunities and situations that you may encounter with your business.
- A sound plan can tell you what and how to achieve the goals that you have set for your business.

What Business Am I In?

In preparing your business plan, the first question to consider is: What business am I really in? At the first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I am in." Now stop and think. Many owner-managers have gone broke and/or wasted their life savings because they failed to define their business, leaving themselves confused as to what business they were actually in.

For example: Mr. Jet on the East Coast maintained a dock and sold and rented boats. He thought he was in the marina business. But when he got into trouble and asked for outside help, he learned that he was not necessarily in the marina business. He was in several businesses. He was in the restaurant business with a dockside cafe, serving meals to boating parties. He was in the real estate business, buying and selling lots. He was in the boat repair business, buying parts and hiring a mechanic as demand arose. Mr. Jet was trying to be too many things and couldn't decide which venture to put money into and how much return to expect. What slim resources he had were fragmented.

Before he could make a profit on his sales and a return on his investment, Mr. Jet had to decide what business he was really in and concentrate on it. After much study, he realised that he should stick to the marina format, buying, selling, and servicing boats.

Define your business. Decide what business you are in and write it down. Ask yourself questions such as: What do I buy? What do I sell? Which of my lines of goods yields the greatest profit? What do people ask me for? What is it that I am trying to do better, to do more of or to do differently than my competitors?

Marketing

Once you have decided what business you are in, it is time to consider another important part of your business plan, marketing. Successful marketing starts with the owner-manager. You have to know the merchandise you are selling and the needs and wants of your customers. The objective is to move the stock off the shelves and display racks at the right price to bring in sales dollars.

The text and suggested working papers that follow are designed to help you work out a marketing plan for your store.

Determining the Sales Potential

In retail business your sales potential depends on location. Like a tree, a store has to draw its nourishment from the area around it. The following questions should help you to work through the problem of selecting a profitable location.

- In what part of the city or town will you locate?
- In the downtown business section?
- In the area right next to the downtown business area?
- In a residential section of the town?
- On the highway outside of town?
- In the suburbs?
- In a suburban shopping centre?

On a worksheet, write down where you plan to locate and provide reasons why you chose that particular location.

Now consider these questions that will help you narrow down a place in your location area.

- What is the competition in the area you have picked?
- How many of the stores in that area look prosperous?
- How many look as though they are barely getting by?
- How many similar stores went out of business in this area last year?
- How many new stores opened up last year?
- What price line does the competition carry?
- Which store or stores in the area will be your biggest competitor(s)?

Again, write down the reasons for your opinions. Also, prepare an analysis of the area's economic base and give the reasons for your opinion. Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

When you find a store building that seems to be what you need, answer the following questions:

- Is the neighbourhood starting to get run down?
- Is the neighbourhood new and on the way up?
- Are any super highways or throughways planned for the neighbourhood?
- Is street traffic fairly heavy all day?
- Do pedestrians look like prospective customers?
- How close is the building to bus lines and other transportation?
- Are there adequate parking spaces convenient to your store?
- Are the sidewalks in good repair (you may have to repair them)?
- Is the street lighting good?
- Is your store on the sunny side of the street?
- What is the occupancy history of this store building? Does the store have a reputation for failures? (Have stores opened and closed after a short time)?
- Why have other businesses failed in this location?
- What is the physical condition of the store?
- What service does the landlord provide?
- What are the terms of the lease?
- How much rent must you pay each month?

Estimate the gross annual sales you expect in this location.

When you think you have finally solved the site location dilemma, ask your banker to recommend people who know most about locations in your line of business. Contact these people and listen to their advice and opinions, weigh what they say, then decide.

Attracting Customers

Once you have a location, begin work on your next area of marketing. How will you attract customers to your store? How will you pull business away from your competition?

It is through working with this aspect of marketing that many small retailers find competitive advantages. The ideas they develop are often as good, if not better, than those of large companies.

The work blocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

Image

A store has an image whether or not the owner is aware of it. For example, throw some merchandise onto shelves and onto display tables in a dirty, dimly lit store and you've got an image. Shoppers think of it as a dirty, junky store and avoid coming into it. Your image should be concrete enough to promote in your advertising and other promotional activities. For example, "home-style cooked" food might be the image of a small restaurant.

Write out on a worksheet the image that you want shoppers and customers to have of your store.

Pricing

Value perceived is the key to pricing. The final price of the merchandise you sell may be determined by the cost or its inputs. Your answers to the following questions should help you to decide what to do about pricing.

In what price ranges is/are your line(s) of merchandise sold:

High ___ Medium ___ Low

Will you sell for cash only?

What services will you offer to justify your prices if they are higher than your competitor's prices?

If you offer credit, will your price have to be higher than if all sales are for cash? The credit costs have to come from somewhere. Plan for them.

If you use credit card systems, what will it cost you? Will you have to add to your prices to absorb this cost?

Customer Service Policies

The service you provide your customers may be free to them, but you pay for it. For example, if you provide free parking, you pay for your own parking lot or pick up your part of the cost of a lot you share with other retailers.

Make a list of the services that your competitors offer and estimate the cost of each service. How many of these services will you have to provide just to be competitive? Are there other services that would attract customers but that competitors are not offering? If so, what are your estimates of the cost of such services? Now list all the services you plan to offer and the estimated costs. Total these expenses and figure out how you can include them in your prices without pricing your merchandise out of the market.

Advertising

Once you have established your image, price range, and customer services philosophy, you are ready to tell prospective customers who you are and why they should shop in your store.

When the money available for advertising is limited, it is crucial that your advertising be on target. Before setting an advertising budget, make a note of what it is that you want your campaign to illustrate. What do you want to say about your product? What sets you apart from the competition?

Once your advertising plan is brainstormed and revised, it is time to develop your ad campaign and set your advertising budget. Contact your local media (newspapers, radio and television, and printers of direct mail pieces) regarding the services they offer and how much they charge.

How you spend advertising money is your decision, however, do not overlook the benefits of seeking professional help. Though you may feel that professional advertising services are too expensive for this point in your businesses life cycle, advertising is a profession. Though it may cost more than you would like to spend, the long term benefits of hiring an experienced and knowledgeable professional may outweigh the short term cost.

Once you have an approximation of what your advertising cost will be for the next twelve months, compare it with industry averages. Since advertising expense is one of the operating ratios (expenses as a percentage of sales) that trade associations and other organizations gather, finding this information may be easier than you think. Industry Canada has an online business information source called *Strategis.* Available through the Internet at: http://strategis.gc.ca, *Strategis* is an excellent information source providing up-to-date statistics on specific industry sectors in Canada.

If your estimated cost for advertising is substantially higher than the industry average, you may want to take a second look at your costs. Determining how much to spend on advertising comes down to the question, "How much can I afford to spend and still do the job that needs to be done?"

In-Store Sales Promotion

To complete your work on marketing, you need to think about what you want to happen once customers are inside your store. Your goal is to satisfy your customers while moving stock off the shelves and displays at a profit. At this day in age, if you are preparing your store to do sales on a strictly cash basis, you may be losing a large percentage of the market. Many people buy goods and services on credit. Customers will have more buying confidence and comfort in your store if they know that they have the means to buy your merchandise.

There are two ways in which you can encourage people to buy. First, you can use the personal selling touch by having employees approach the customer. Secondly, you can use the self-service approach. Many stores are turning to the self-serve approach as it cuts down on the cost of sales staff. When using this approach, make your merchandise attractive to the customer by using layout, attractive displays, signs, and clearly marked sales items.

When figuring cost of fixtures and equipment, list them on your worksheet as follows:

Type of Equipment	Number x Unit Cost = Cost

Draw several layouts of your store and attach the layout that suits you to the cost worksheet. Determine how many signs you may need for a twelve month operation and include these costs as well.

If your store is a combination of self-service and personal selling, how many sales persons and cashiers will you need? Estimate, I will need ____ sales persons at $____ each week (include payroll benefits in this salaries cost). In a year salaries will cost $____.

Personal attention to customers is a competitive tool that small stores can use to their advantage. During employee training, you must emphasize the importance of teamwork. Customers are not interested in job descriptions, but they are interested in being served promptly and courteously. Nothing is more frustrating to a customer than being ignored by an employee. Decide what training you will give your sales people concerning how to greet customers, show merchandise, suggest other items, and handle customer needs and complaints.

Buying

When buying merchandise for resale, you need to answer these questions:

- Who sells the line to retailers? Is it sold by the manufacturer directly or through wholesalers and distributors?
- What delivery service can you get and must you pay shipping charges?
- What are the terms of buying?
- Can you get credit?
- How quickly can the vendor deliver fill-in orders?

You should establish a relationship with your supplier that includes a mutually acceptable plan of purchasing for each line of merchandise you buy.

Inventory

Often shoppers leave without making a purchase because the store did not have the items that they were looking for. Stock control, combined with flexible, reliable suppliers who are willing to handle fill-in orders may provide a way to reduce the number of "walkouts".

The type of system you use to keep informed about your stock, or inventory, depends on your line of merchandise and the delivery dates provided by your suppliers.

Your stock control system should help you determine what needs to be ordered by considering:

- What is on hand.
- What is on order.
- What has been sold.

Some trade associations and suppliers provide systems to members and customers, otherwise your accountant can set up a system that is best for your business. Inventory control is based upon either a perpetual or a periodic method of accounting that involves cost considerations as well as stock control. When you have decided what system you will use to control stock, estimate its cost.

You may not need an extensive (and expensive) control system because you do not need the detailed information such a system collects. The system must justify its costs or you will just waste money and time on a useless effort.

Inventory Turn Over

When an owner-manager buys reasonably well, you can expect to turn over stock several times a year. For example, the stock in a small camera shop should turn over four to four and a half times a year. What is the average stock turnover per year of your line of merchandise? How many times do you expect your stock to turn over? List the reasons for your estimate.

Behind-The-Scenes Work

In a retail store, behind-the-scenes work consists of receiving the merchandise, preparing it for display, maintaining display counters and shelves, and keeping the store clean and attractive to customers. The following analytical list will help you decide what you should do by way of behind-the-scenes work and the costs associated with it.

First, list the equipment (for example a marking machine for pricing, shelves, a cash register) you will need for:

- Receiving merchandise.
- Preparing merchandise for display.
- Maintaining display counters and shelves.
- Keeping the store clean.
- Next list the supplies you will need for a year, for example, brooms, price tags, and business forms.

Who will do the back-room work and cleaning that is needed to maintain smooth operation? If you do it yourself, how many hours a week will it take? Will you do these chores after closing? If you use employees, what will they cost? On a worksheet describe how you plan to handle these tasks.

For example:

> Back-room work will be done by one employee during the slack sales times of the day. I estimate that the employee will spend ____ hours per week on these tasks and will cost $ ____ (number of hours times hourly wage) per week and $ ____ per year.
>
> I will need ____ square feet of space for the backroom operation. This space will cost $ ____ per square foot or a total of $ ____ per month.

List and calculate all expense items in the same manner. Examples are utilities, office help, insurance, telephone, postage, accountant, payroll taxes, and licenses or other local taxes. If you plan to hire others to help you manage, calculate these salaries.

Put Your Plan Into Dollars

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investments in a small retail store, the main source of money is sales. What sales volume do you expect to do in the first twelve months? Write your estimates here $_____, and justify your estimate.

Start-up Costs. List the following estimated start-up costs:

• Fixtures and equipment	$ _____	
• Starting inventory	$ _____	
• Decorating and remodelling	$ _____	
• Installation of equipment		$ _____
• Deposits for utilities	$ _____	
• Legal and professional fees	$_____	
• Licenses and permits	$ _____	
• Advertising for the opening	$ _____	
• Accounts receivable	$ _____	
• Other expenses	$ _____	
• Operating cash	$ _____	
Total	$ _____	

Expenses. In connection with annual sales volume you need to think about expenses. If, for example, you plan to do sales amounting to $100,000, what will it cost you to do this amount of business? How much profit will you make? A business must make a profit or close.

A suggested list of expenses to consider is as follows:

Advertising
Bad debts
Delivery
Depreciation (other than real estate)
Donations
Dues and subscriptions
Insurance
Interest
Legal and accounting expenses
Occupancy expenses
Office supplies and postage

Payroll and other employee expenses
Supplies
Taxes (other than real estate and payroll)
Telephone and fax
Travel, buying and entertainment
Unclassified expenses

Cash Flow Projection. A budget helps you determine what dollar amounts you can expect in revenue and expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the store's bills? The owner-manager must prepare for the financial peaks and valleys of the business cycle. A cash forecast is a management tool that can eliminate much of the anxiety that can plague you if your sales go through lean months.

Is additional money needed? Suppose that at this point your business needs more money than can be generated by present sales. What do you do? If your business has great potential or is in good financial condition, as shown by its bank balance sheet, you may want to borrow money (from a bank for instance) to keep the business operating during start-up and slow sales periods.

The loan can be repaid during the increased sales months when sales are greater than expenses. Adequate working capital is needed for success and survival: but cash on hand (or the lack of it) is not necessarily an indication that business is in bad financial shape. A lender will look at your balance sheet to see the business' 'net worth' of which cash and cash flow are only a part. The sample balance sheet statement format shows a business' net worth (financial position) at a given point in time (i.e. the close of business at month-end or year-end).

Even if you do not need to borrow money, you may want to show your plan and balance sheet to your banker. It is never too early to build a good relationship with your banker. Let your banker know that you are a manager who knows where you want to go rather than someone who merely hopes to succeed.

Control And Feedback

To make your plan work you need feedback. For example, the year-end profit and loss (income) statement shows whether your business made a profit or took a loss for the past twelve months. Do not wait twelve months for the score. To keep your plan on target you need readings at frequent intervals. An income statement compiled at the end of each month or at the end of each quarter may be the type of feedback you need. Also, management controls should be set up to ensure that what needs to be done is completed on schedule. As an owner-manager, you cannot expect yourself to do all the work. You must delegate authority, workload and responsibility.

The control system that you set up should give you information about stock, sales, receipts and disbursements. It's purpose is to provide current and useful information. To stay on top of problems, you need facts that expose trouble spots. Outside advisers, such as accountants, can help. Remember, record keeping systems should be set up before the store opens. If you wait until after you are in business, it may be too late.

Stock Control. The purpose of controlling stock is to provide maximum service to your customers. Your aim should be to achieve a high turnover rate on your inventory. The fewer dollars you tie up in stock, the better. In a small store, stock control helps the owner-manager offer customers a balanced assortment and enables you to determine what needs ordering on the basis of:

- What is on hand.
- What is on order.
- What has been sold.

When setting up inventory controls, keep in mind that the cost of the stock is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping stock control records, and the cost of receiving and storing stock.

Sales. In a small store, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you need answers to questions such as:

- How many sales were made?
- What was the dollar amount?
- What were the best selling products?
- At what price?
- What credit terms were given to customers?

Receipts. Break up your receipts into receivables (money still owed such as a charge sale) and cash. This way, you will know how much credit you have given, how much more you can give, and how much cash you have with which to operate.

Disbursements. Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You should pay bills on time to take advantage of supplier discounts. Your review systems should also give you the opportunity to make judgements on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies, such as payroll income tax deductions, must be set aside and paid out at the proper time.

Break-Even. Break-even analysis is a management control device that approximates how much you must sell in order to cover your costs with NO profit and NO loss. Profit comes after break-even.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profit. To figure a break-even point, fixed costs (like rent) must be separated from variable costs (like the cost of goods sold.) The break-even formula is:

$$\text{Break-even point (in sales dollars)} = \frac{\text{Total fixed costs}}{1 - \dfrac{\text{total variable costs}}{\text{corresponding sales volume}}}$$

Sample break-even calculations:

Bill Mason plans to open a shoe store and estimates his fixed expenses at about $9,000 the first year. He estimates variable expenses of about $700 for every $1,000 of sales. How much must the store gross to break-even?

$$\text{BE Point} = \frac{\$9{,}000}{1 - \frac{700}{1{,}000}} = \frac{\$9{,}000}{1 - .70} = \frac{\$9{,}000}{.30} = \$30{,}000$$

Is Your Plan Workable?

Take time to re-examine your plan before you start financing. If the plan is not workable, it is better to learn it now than realize six months from now that you are pouring money into a losing venture. In reviewing your plan, examine the cost figures you drew up when you broke down your expenses for the year (operating ratios on the income statement). If any of your cost items are too high or too low, change them. You can write your changes above or below your original entries on the worksheet. When you finish making your adjustments, you will have a REVISED projected statement of sales and expenses.

With your revised figures, work out a revised break-even analysis. Show your plan to someone who has not been involved in working out the details with you. This will provide an impartial second opinion. Your banker, or other advisors may find weaknesses in the business plan that you had missed. They may also see strong points in your plan that should be emphasized.

Implementing Your Plan

When your plan is as thorough and accurate as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a wishful dream. A successful owner-manager does not stop after gathering information and drawing up a business plan, as you have done in working through this publication. USE the plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action. What needs to be done will depend on your situation and goals. For example, if your business plan calls for an increase in sales, you may have to provide more funds for this expansion. Have you more money to put into this business? Do you borrow from friends and relatives? From your bank? From your suppliers (through credit terms)? If you are starting a new business, one action may be to get a loan for fixtures, stock, employee salaries, and other expenses. Another action will be to find and to hire capable employees.

Now make a list of things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time. To put my plan into action, I must:

- Do (action)_____________ by (date)
- Etc.

Keep Your Plan Current

Once you have put your plan into action, review it for changes. A business plan that is not revised can cripple your business no matter how good the initial plan was. Sometimes the change may be from within your company (i.e. several of your sales people quit). Other times the change may be external, for example, customers tastes and attitudes towards your merchandise may change.

In order to adjust your plan to account for such changes, you, the owner-manager, must:

- Be aware of the changes that come are frequent in your line of business
- Check your plan against these changes.
- Determine what revisions, if any, are needed in the business plan.

Do not be discouraged if your business does not follow your plan to a tee. A business plan can be a complex piece of work. Keep it updated and put your revisions into action. A good business plan must evolve over time. As you gain experience and knowledge through your work, you will see your plan develop and reflect your business the way you want it to.

For more information or guidelines on preparing a business plan, you may want to try the following Web sites:

• Interactive Business Planner	**http://www.cbsc.org/ibp**
• Royal Bank – Tools for Business	**http://www.royalbank.com/business/tools/bigidea.html**
• Strategic Business Planning Co.	**http://www.bizplan.com**
• TD Business Planner	http://www.tdcanadatrust.com/smallbusiness/planner.html

Source: U.S. Small Business Administration

BUSINESS PLAN FOR SMALL CONSTRUCTION FIRMS

Summary

A business plan can provide the owner-manager or prospective owner-manager of a small construction firm with a pathway to profit. This publication is designed to help an owner-manager in drawing up a business plan.

In building a pathway to profit you need to consider the following questions:

- What business am I in?
- What do I sell?
- Where is my market?
- Who will buy?
- Who is my competition?
- What is my sales strategy?
- How much money is needed to operate my firm?
- How will I get the work done?
- What management controls are needed?
- How can they be carried out?
- When should I revise my plan?
- Where can I go for help?

No one can answer these questions for you. As the owner-manager you have to answer them and draw up your business plan. The pages of this publication are a combination of text and workspaces that allow you to write in the information you gather in developing your business plan.

A Note On Using This Publication

It takes time, energy, and patience to draw up a satisfactory business plan. Use this publication to get your ideas and supporting facts down on paper. Make changes to your plan on these pages as it unfolds and the need arises.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it unexpectedly crops up later on. If you leave out or ignore too many items, your business is headed for disaster.

Also, keep in mind, that your final goal is to put your plan into action. More will be said about this step near the end of this publication.

What's In This For Me?

The hammer, trowel, pliers, and wrench are well known tools of the construction industry. They have their various uses and are needed to get the work done. Management is another tool that the owner-manager of a construction firm must use. Each job must be planned and organized if the firm is to run smoothly and efficiently. The business plan will help you increase your skills as a manager.

Because of the diverse nature of the construction industry, you may be engaged in residential, commercial or industrial construction. You may either be a general contractor or a speciality contractor. Whatever the case, the same basic managerial skills are needed. This plan will serve as a guide to the various areas that you as a manager will be concerned with. As you work through this plan, adapt it to your own particular needs.

When complete, your business plan will help guide your daily business activities. When you know where you want to go, it is easier to plan what you must do to get there. Also, the business plan can serve as a communication device which will orient key employees, suppliers, bankers and whoever else needs to know about your goals and your operations.

Whether you are just thinking about starting your own firm or have already started, the business plan can help you. As your skill as a manager increase, so will the number of jobs you can effectively control. The careful completion of this plan may point out your limitations. This is important. To be a successful contractor you must not only know your business thoroughly, you must also know your limitations and seek professional advice where necessary.

Why Am I In Business?

Most contractors are in business to make money and be their own boss. But, don't forget, no one is likely to stay in business unless they also satisfy a consumer need at a competitive price. Profit is the reward for satisfying consumer needs in a competitive economy.

In the first years of business, your profits may seem like a small return for the long hours, hard work, and responsibility of being the boss. But there are other rewards associated with having your own business. For example, you may find satisfaction in helping to put groceries on your employees' tables. Or, maybe your satisfaction will come from building a business you can pass on to your children.

Why are you in business?

____

What Business Am I In?

At first glance this may seem like a rather silly question. You may say, "If there is one thing I'm sure of, it's what business I am in." But wait. Let's look further into the question. Suppose you say, "I build houses." Are you a speculative or custom builder? Can you schedule a complete job and make money? By planning according to this decision, you should realize the value of this type of thinking in dollars.

Consider this example. Bob Rogers (fictitious) started a small construction business shortly after World War II. Because of Mr. Rogers' skill and talent for design, he directed all his activity toward building taverns. There was enough call for this type of building to keep him and his crew busy until the early 60's. Then sales began to fall off.

By moving his shop to smaller quarters with less overhead and by laying off half his crew, Rogers was able to maintain his business to his satisfaction the rest of his life. After his death, his son examined the situation and decided that he wasn't really in the business of building commercial bars. He was in the business of custom finishing. Today his business is prospering. He is building cabinets and small bars for private homes. The son's ability to redefine the nature of the father's business allowed him to gain greater benefits.

In the space below, state what business you're really in.

____

What are your reasons for this opinion? ____

____

Marketing

Once you have decided what sort of construction business you are really in, you have made your first marketing decision. Now in order to sell your service or product, you must face other marketing decisions.

Your marketing objective is to find enough jobs at the right times to provide a profitable continuity for your business. Your job starts must be coordinated to eliminate the down time between jobs. In other words, you want to get enough jobs starting at the right times to keep from being broke between jobs.

Unless an individual can come up with enough ideas to keep a crew working 12 months a year, maybe he or she is not ready for a construction business.

Where is Your Market?

Describe your market area in terms of customer profile (age, school needs, income, and so on) and geography. For example, if you are a custom builder, you may decide to build homes in the $100,000 to $250,000 price range. This would mean that your customers will have to have incomes in the middle to upper-middle class range. You may also decide that you can profitably build these homes on the owner's lot if it is located within a range of 30 miles from your office. The significance of a customer profile is that it will help you narrow your advertising to those media that will reach the potential customer you have profiled. In the space below describe your market in terms of customer profile and geography.

My Product ____

Types of Customers ____

Locations of Customers ____

Now that you have described what you want in terms of customer and location, what is it about your operation that will make these people want to buy your service? For instance, quality work, competitive prices, guaranteed completion dates, effective advertising, unique design, and so on.

Write your answer here. ____

____

Advertising

You have determined what it is you're marketing, who is going to buy it, and why they're going to buy it. Now you have to decide what the best way is to tell your prospective customers about your product.

What should your advertising tell prospective customers?

____

____

What form should your advertising take? Ask the local media (newspapers, radio and television stations, and printers of direct mail pieces) for information about their services and the results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many advertisers. As one consultant describes this pitfall: It is amazing the way many business managers consider themselves experts on advertising copy and media selection without any experience in these areas.

The following workbook should be useful in determining what advertising is needed to sell your construction service.

Form of Advertising	Size of Audience	Frequency of Use	Cost of A single ad	Estimated Cost
			x $	= $
			x $	= $
			x $	= $
			x $	= $

Total $ =

Competition

The competition in the construction industry often results in low profit margins. However, if you are just starting or are a relatively small firm, this does not put you at a disadvantage. The small firm can often compete with the bigger outfit because of lower overhead expense. For example, your office may be in your home. Or, you may be able to work right out of your truck, saving you the expense of a field office.

Competition is largely based on price. Although having a good reputation for quality and efficiency is beneficial. The result of any competition leaves those who are poor planners and performers with a high failure rate. This points out the need for careful planning, particularly in the areas of estimating and bidding.

In order to see what you are up against competition-wise, answer the following questions so you can plan accordingly.

Who will be your major competitors? ____

____

How will you compete against them? ____

____

Sales Strategy

The market for the construction industry is unique in many ways. As a contractor you will find your market to be dependent on such variables as the state of the economy, local employment stability, the seasonality of the work, labour relations, good subcontractors and interest rates. Also, as a contractor, you will find that you are unavoidably dependent on others, such as customers or financing institutions for payment, and other contractors for performance of their work. You will also want to take your cash flow into consideration when you estimate and bid on a job. The money must come in time to meet your own obligations.

Estimating

Whether an owner-manager in the construction business makes a profit or not depends to a great extent on bidding practices. Therefore, you must make careful and complete estimates.

Many of the more successful contractors attribute their success to their estimating procedures. They build the job on paper before they submit a bid. In doing this, they break the job down into work units and pieces of material. Then, they assign a cost to each item. The total of these costs will be the direct construction cost. You must also figure on the indirect costs of a job. For instance, you will have overhead expenses such as the cost of maintaining your office, trucks, license fees, and so on. The estimate should also consider any interest charges you will pay on money you borrow to get the job under way. You have insurance fees to pay, surety bond premiums, travel expenses, advertising costs, office salaries, lawyer's fees, and so on. These must also be paid out of your gross income.

Trade associations, as one of their services, often provide their members with a package of business forms. The cost estimate form would be included in the package. The obvious advantage in using forms is that they are specifically designed for the particular trade.

Regardless of what estimate form you use, it should include such headings as "activity", "material", "labour", "subcontracts", and "estimated cost". And, it should have areas for direct construction costs, indirect construction costs, overhead, and profit.

In addition, a column for the actual cost compared to the estimated cost of a specific work item will make this form an invaluable record. Here you would have a handy reference to evaluate the profitability of a job after it is complete. It would show you where your estimate was high or low, and enable you to adjust future bids on similar projects. This added column will also be necessary when it comes time for your financial accounting.

Bidding

Your decision to bid or not to bid on a particular job should be determined by several factors. First, do you have the capacity to complete the job on schedule and according to specifications. Beware of overextending yourself out of business. You have to operate within your known capabilities. On any job, you must follow all the details of the work yourself, or find competent supervision.

Bonding

The practice of bonding has been a traditional way of life for anyone engaged in contract construction. Bonding companies provide bonds for a certain percentage of the contract price. There are three main types of bonds:

- Bid bonds assure that the bidder is prepared to perform the work according to the terms of the contract if successful in the bid.
- Performance bonds assure completion of the job according to plans and specifications.
- Payment bonds assure anyone dealing with the bonded contractor that they will be paid.

The effect that bonding companies have had on contractors is evident in the area of competition. The customer, by requiring that the contractor is bonded, is more or less assured of adequate completion of the job. Therefore, contractors are compared on a basis of price. Also, banks are often more lenient to bonded contractors.

Bonding companies usually require the contractor to have proven experience and the organizational financial capacity to complete the project. This can be a real stumbling block to the new construction firm.

With the widespread use of bonding requirements, the competition that is generated often leads the inexperienced contractor to submit bids that are unrealistically low. One or two such mistakes often can spell bankruptcy.

Will you need bonding ____often, ____ occasionally, ____seldom?

Where will you get your bond? ____

What will the terms be? ____

Planning The Work

When your marketing efforts result in jobs to be done, the problem becomes one of production. How will you plan the work so that the job gets done on time?

No matter how you plan the work, your plan should assist you in two specific ways:

- It should help you maintain your production schedule.
- It should allow you to adjust production to meet changed conditions, such as bad weather.

In planning the work, keep in mind two things:

- The timing of starts.
- The timing of the various steps in the construction of your company.

If you have sufficient help and sufficient supervisory personnel, it will be possible for you to engage in as many projects as you can control. The size and nature of the job must be considered here also.

The timing of the steps of construction (the work scheduling) will show the various operations in sequence and assign a working day designation to each with a space for the calendar day designation. Several operations may be in progress simultaneously. Such a work schedule will show at a glance whether the work is progressing at the right time. Many companies offer commercial scheduling boards designed for this purpose.

Below is a partial work schedule to demonstrate how yours may be set up. Note that there is a column that can be filled in with either a solid mark of an "X" to indicate either partial or completed work. When you look at a particular calendar day, an "X" next to it would indicate that you're on schedule. An open square indicates a delay. Here then, is a convenient way to see trouble spots that are causing delays and it gives you an opportunity to take corrective action.

You should save your work schedules. They will form the basis for future estimates. For example, if you are estimating a particular job, you have information on the steps of production, an indication of what materials you'll need and when you'll need them, an indication of how long the job will take, and any peculiarities that may affect the completion of the job. When you consider all these things, you'll be more likely to submit an accurate bid.

Working Day

Activity	Start	Finish	Calendar Day	Complete
Layout	1	1	15	X
Foundation Forms	1	2	16	X
Foundation Pour	3	3	19	/

(/ indicates 3/4 complete)

By carefully keeping such records, you will also have an indication of how many workers you will need. Perhaps, if the work falls behind schedule, you may need to bring more workers to the job to assure scheduled completion and avoid a possibly larger financial loss from penalization, if that is called for in your contract. Also such records will give you an indication of the organizational structure you may need for your firm.

Getting The Work Done

If your firm is going to run efficiently, you will need organization. Organization is essential because as your company grows you will not be able to do all the work. You have to delegate work, responsibility, and authority. The organization chart is a useful device in getting this done. It shows quite clearly who is responsible for the major activities of your business.

At first, many construction companies are one man shows. It is up to the owner to do almost everything. As the company grows, perhaps specialists are added, such as an engineer/estimator, an office manager, and a general superintendent.

What Are Your Personnel Requirements?

Will you carry a permanent crew or hire workers as the need arises? ______________________________

Will you use union or non-union labour? ____________________

How many workers will you need? ____________________

What is the hourly rate you will pay? ____________________

What will fringe benefits cost? ____________________

Will you supervise the work yourself or hire a foreman? ____________________

If you hire a foreman, what will his salary be? ____________________

Will you need clerical help? ______________ What will it cost? ______________

Equipment

What special equipment will you need (assuming that your work force will supply their own hand tools)?

Equipment	Rent	Buy	Your Cost
			$
			$
			$
			$
			$

Will you need an office or use your home? ____________________

If you will need an office, what will the rent and other expenses cost? ____________________

____

____

Put Your Plan Into Dollars

Just as with the other aspects of managing a construction business, the basic unit of financial management is the job. The financial aspects of a job must be planned as carefully as the actual construction. The payment for each job must cover the direct and indirect construction costs as well as the allocated share of overhead.

Accounting requirements will vary from company to company and from trade to trade. Your accountant will help you set up the accounting system which will best meet your needs.

However, you must make the overall plans yourself. You must develop the goals necessary to guide and manage your business. The overview will prove invaluable in establishing a good working relationship with your banker (or other lender) and bonding company.

In your financial planning, the first consideration is where the dollars will come from. In dollars, how much business (sales) will you be able to do in the next 12 months?

____

____

Expenses

In connection with annual sales volume, you need to think about expenses. For example, if you plan to do $100,000 worth of work, how much will it cost you to do this amount of business? And even more important, what will be left over as profit at the end of the year?

Profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money and time you invest in it. Profit helps your firm to be strong - to have a financial reserve for any lean periods.

You need to get one set of figures - the operating ratios for your line of business. If you don't have these figures, check with the trade association which serves your area of the construction industry.

Matching Money And Expenses

After you have planned for your month to month expenses, the next question is: Will there be enough money coming in to meet these expenses and to sustain your company in the event that there is down time until your next job?

The cash forecast is a management tool that can eliminate much of the anxiety that can plague you during a lean month. Estimate the amount of cash that you expect to flow through your business during the next 12 months.

Remember that the expenses of buying the materials and supplies for a particular job may occur a month or two before a payment is made.

Is Additional Money Needed?

In your planning you may find periods when you will be short of cash. For example, when you start a job you will need materials and supplies. Perhaps it may be a month or two before your first payment. What do you do in the interim if trade credit will not completely satisfy your cash needs?

Your bank may be able to help with a short term loan. If a banker is to lend you money on either a short or long term, he or she will want to know whether your company's financial condition is weak or strong. The bank officer will ask to see a balance sheet.

Even if you don't need to borrow money, you may want to show your plan to the bank that handles your company's account. It is never too early to build good relations with your banker. For the time may come when you will have to borrow.

Control And Feedback

To make your plan work you will need feedback at the various stages of your management process. When you approach a job as a manager, you will need to plan the job, direct the job, and control the job. Throughout this process, you will need adequate financing. Thus, the management controls you set up should supply you with the information you need to keep your operation "on the money".

During the planning stage, you will need to carefully calculate your bid estimate. To direct the job, you will need your job cost analysis to make sure that the job is going to make a profit. To control the job, your forces must be organized. This requires the organized production of any given job (work schedule), competent personnel, and your personal follow-up to ensure efficient performance.

Is Your Plan Workable?

Now that you've planned this far, step back and take a look at your plan. Is it realistic? Can you do enough business to make a living?

Now is the time to revise your plan if it isn't workable, not after you've invested your time and money. If you feel that some revisions are needed before you start your own business, then make them. Go back to the cash flow and adjust the figures. Better, show your plan to someone who has not had a hand in making out your business plan. Your banker or any outside advisor may be able to point out your strong points which if emphasized could turn into dollars.

If you have strong doubts about your business or your ability to run it, it might be better to delay going into business until you feel as comfortable with the tools of management as you are with the tools of your trade.

Keeping Your Plan Up To Date

How many people in this world can predict the future? Very few indeed! You can expect things to change. You can expect circumstances to be different from what you expected. This is only natural. The difference between successful and unsuccessful planning is often only the ability to keep alert and watch for changes. Stay on top of changing conditions and adjust your plan accordingly.

In order to adjust your plan to account for changes, and owner-manager must:

- Be alert to the changes that come about in your industry, your market and in your customers.
- Check your plan against these changes.
- Determine what revisions, if any, are needed in your plan.

Whatever methods you use to keep up with changing conditions is up to you. Once a month or so, go over your plan. See whether it needs adjusting. If revisions are needed, make them and put them into action.

Implementing Your Plan

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value that a pleasant dream that evaporates over the breakfast coffee.

The first action step would be acquiring enough capital to get started. Do you already have the money? Will you borrow it from friends, relatives, or a bank? Where and when will you hire competent employees?

What else needs to be done? Look for positive action steps that will get your business rolling. For example, where and how will you get whatever licenses you need to be a contractor? (These requirements differ from province to province.)

For more information or guidelines on preparing a business plan, you may want to try the following Web sites:

• Interactive Business Planner	**http://www.cbsc.org/ibp**
• Royal Bank – Tools for Business	**http://www.royalbank.com/business/tools/bigidea.html**
• Strategic Business Planning Co.	**http://www.bizplan.com**
• TD Business Planner	**http://www.tdcanadatrust.com/smallbusiness/planner.html**

Source: U.S. Small Business Administration

BUSINESS PLAN FOR SMALL SERVICE FIRMS

A business plan can provide the owner-manager or prospective owner-manager of a small service firm with a pathway to profit. This publication is designed to help an owner-manager in drawing up a business plan.

In building a pathway to profit you need to consider the following questions:

- What business am I in?
- Where is my market?
- Who will buy?
- Who is my competition?
- What is my sales strategy?
- What merchandising methods will I use?
- How much money is needed to operate my firm?
- How will I get the work done?
- What management controls are needed?
- How can they be carried out?
- When would I revise my plan?
- Where can I go for help?

As well as many more.

No one can answer such questions for you. As the owner-manager you have to answer these questions to draw up your business plan.

A Note On Using This Publication

It takes time, energy, and patience to draw up a satisfactory business plan. Use this publication to get your ideas and some of the supporting facts down on paper. Bear in mind that anything you leave out of the picture will create an additional cost, when it crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Also, keep in mind that your final goal is to put your plan into action. More will be said about this near the end of this publication.

What's In This For Me?

You may be thinking: Why should I spend my time drawing up a business plan? What's in it for me? If you've never drawn up a plan, you are right in wanting to hear about the possible benefits before you do your work.

A business plan offers at least four benefits. You may find others as you make and use such a plan.

The four are:

- The first, and most important, benefit is that a plan gives you a path to follow. A plan makes the future what you want it to be. A plan with goals and action steps allows you to guide your business through turbulent economic seas and into harbours of your choice. The alternative is drifting into "any old port in a storm."
- A plan makes it easy to let your banker in on the action. By reading, or hearing, the details of your plan he will have real insight into your situation if he is to lend you money.
- A plan can be a communications tool when you need to orient sales personnel, suppliers, and others about your operations and goals.
- A plan can help you develop as a manager. It can give you practice in thinking about competitive conditions, promotional opportunities, and situations that seem to be advantageous to your business. Such practice over a period of time can help increase an owner-manager's ability to make judgements.

Why Am I In Business?

Many enterprising Canadians are drawn into starting their own business by the possibilities of making money and being their own boss. But the long hours, hard work, and responsibilities of being the boss quickly dispel any preconceived glamour.

Profit is the reward for satisfying consumer needs. In order to see profits however, you must be prepared to do the work. Often a new business will not show profits for its first few years of operation. This being the case, what are your reasons for becoming a small business owner?

Every small business owner-manager will have his or her own reasons for being in business. For some, satisfaction comes from serving their community. They take pride in serving their neighbours and giving them quality work which they stand behind. For others, their business offers them a chance to contribute to their employees' financial security.

There are as many rewards and reasons for being in business as there are business owners. Why are you in business?

What Business Am I In?

In making your business plan, the first question to consider is: What business am I really in? At the first reading this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are in.

The changeover of barbershops from cutting hair to styling hair is one example of thinking about what business you're really in.

Consider this example also. Joe Riley (fictitious name) had a small radio and television store. He thought of his business as a retail store though he also serviced and repaired everything he sold. As his suburb grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work.

When Mr. Riley considered his situation, he decided that he was in the repair business. As a result of thinking about what business he was really in, he built up his repair business and has a contract to take care of the servicing and repair business for one of the other appliance stores.

Decide what business you are in and write your answer in the following spaces. To help you decide, think of the answers to questions such as:

What inventory of parts and materials must you keep on hand? ____________________

What services do you offer? ____________________

What services do people ask for that you do not offer? ____________________

What is it you are trying to do better, more of, or differently from your competitors?

____

Marketing

Once you have decided what business you are in, you have made your first marketing decision. Now you are ready for other important considerations.

Successful marketing starts with the owner-manager. You have to know your services and the needs of your customers.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your business. The blocks are divided into three sections:

- Section One - Determining the Sales Potential
- Section Two - Attracting Customers
- Section Three - Selling to Customers

Section One - Determining The Sales Potential

In the service business, your sales potential will depend on the area you serve. How many customers in this area will need your services? Will your customers be industrial, commercial, consumer, or all of these.

When picking a site to locate your business, consider the nature of your service. If you pick up and deliver, you will want a site where the travel time will be low and you may later install a radio dispatch system. If the customer must come to your place of business, the site must be conveniently located and easy to find.

You must pick the site that offers the most potential of being profitable. The following questions will help you think through this problem.

In selecting an area to serve, consider the following:

- Population and its growth potential
- Income, age, occupation of population
- Number of competitive services in and around your proposed location
- Local ordinances and zoning regulations
- Type of trading area (commercial, industrial, residential, seasonal)

For additional help in choosing an area, you might try the local chamber of commerce and the manufacturer and distributor of any equipment and supplies you will be using.

You will want to consider the next list of questions in picking the specific site for your business.

- Will the customer come to your place of business?
- How much space do you need?
- Will you want to expand later on?
- Do you need any special features required in lighting, heating, ventilation?
- Is parking available?
- Is public transportation available?
- Is the location conducive to drop-in customers?
- Will you pick up and deliver?
- Will travel time be excessive?
- Will you prorate travel time to service call?
- Would a location close to an expressway or main artery cut down on travel time?
- If you chose a remote location, will savings in rent offset the inconvenience?
- If you chose a remote location, will you have to pay as much as you save in rent for advertising to make your service known?
- If you chose a remote location, will the customer be able to readily locate your business?
- Will the supply of labour be adequate and the necessary skills available?
- What are the zoning regulations of the area?
- Will there be adequate fire and police protection?
- Will crime insurance be needed and be available at a reasonable rate?
- I plan to locate in ______________________ because ______________________
  ____
- Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Or part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?
- Write your opinion of the area's economic base and your reason for that opinion here.
  ____
- Will you build? ______________________
- What are the terms of the loan or mortgage? ______________________
- Will you rent?______________________
- What are the terms of the lease? ______________________
- Is the building attractive? ______________________
- Is the building in good repair? ______________________
- Will it need remodelling? ______________________
- What will be the cost of the remodelling ______________________
- What services does the landlord provide?______________________
- What is the competition in the area you have picked? ______________________
  ____
- What is the number of firms that handle your service? ______________________

- Does the area appear to be saturated? ____________________
- How many of these firms look prosperous? ____________________
- Do they have any apparent advantages over you? ____________________
- How many look as though they are barely getting by? ____________________
- How many similar services went out of business in this area last year? ____________________
- Can you find out why they failed? ____________________
- How many new services opened up in the last year? ____________________
- How much do your competitors charge for your service? ____________________
- Which firm or firms in the area will be your biggest competition? ____________________
  ____
- List the reasons for your opinion here. ____________________
  ____

Section Two - Attracting Customers

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your business? How will you pull customers away from your competition?

It is in working with this aspect of marketing that many small service firms find competitive advantages. The ideas which they develop are as good, and often better, than those which large companies develop with hired brains. The work blocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

- *Image*

  Whether you like it or not, your service business is going to have an image. The way people think of your firm will be influenced by the way you conduct your business. If people come to your place of business for your service, the cleanliness of the floors, the manner in which they are treated, and the quality of your work will help form your image. If you take your service to the customer, the conduct of your employees will influence your image. Pleasant, prompt, and courteous service before and after the sale will help make satisfied customers your best form of advertising.

  Thus, you can control your image. Whatever image you seek to develop, it should be concrete enough to promote in your advertising. For example, "service with a smile" is an often used image.

  Write out what image you want customers to have of your business. ____________________

  ____

- *Pricing*

  In setting prices for your service, there are four main elements you must consider:

  - Materials and supplies
  - Labour and operating expenses
  - Planned profit
  - Competition

  Further along in this publication you will have the opportunity to figure out the specifics of materials, supplies, labour, and operating expenses. From there you may want the assistance of your accountant in developing a price structure that will not only be fair to the customer, but also fair to yourself. This means that not only must you cover all expenses but also allow enough margin to pay yourself a salary.

One other thing to consider. Will you offer credit? ______ Most businesses use a credit card system. These credit costs have to come from somewhere. Plan for them. If you use a credit card system, what will it cost you?_____________ Can you add to your prices to absorb this cost?

Some trade associations have a schedule for service charges. It would be a good idea to check with the trade association for your line of business. Their figures will make a good yardstick to make sure your prices are competitive.

And, of course, your prices must be competitive. You've already found out your competitors' prices. Keep these in mind when you are working with your accountant. If you will not be able to make an adequate return, now is the time to find out.

- *Customer Service Policies*

Customers expect certain services or conveniences, for example, parking. These services may be free to the customer, but not to you. If you do provide parking, you either pay for your own lot or pick up part of the cost of a lot which you share with other businesses. Since these conveniences will be an expense, plan for them.

List the services that your competitors provide customers. ______________________________

____

Now list the services that you will provide your customers.

Service	Estimated Cost
____	______________
____	______________
____	______________

- *Advertising*

Once you have an image, price range, and customer services, you are ready to tell prospective customers why they should use your services.

When the money you can spend on advertising is limited, it is vital that your advertising be on target. Before you can think about how much money you can afford for advertising, take time to determine what jobs you want advertising to do for your business. The work blanks that follow should be helpful to your thinking.

The strong points about my service business are _____________________________________

____

My service is different from my competition in the following ways ______________________________

____

My advertising should tell customers and prospective customers the following facts about my business and services ____

____

When you have these facts in mind, you have to determine who you are going to tell them to. Your advertising needs to be aimed at a target audience, which are those people who are most likely to use your services. In the space below, describe your customers in terms of age, sex, occupation, and whatever else is necessary depending on the nature of your business. This is your customer profile. For example, an auto repair business may have a customer profile of "male and female automobile owners, 18 years old and above." Thus, for this repair business, anyone over 18 who owns a car is likely to need its service.

The customer profile for my business is ____

____

Now you are ready to think about the form of your advertising and its cost. You are looking for the most effective means to tell your story to those most likely to use your service. Ask the local media (newspapers, radio and television, and printers of direct mail pieces) for information about the services and the results they offer for your money. How you spend your money is your decision, but don't fall into the trap that snares many advertisers.

As one consultant describes this pitfall: "it is amazing the way many managers consider themselves experts on advertising copy and media selection without any experience in these areas."

The following blanks should be useful in determining what advertising is needed to sell your strong points to prospective customers.

Form of Advertising	Size of Audience of Use	Frequency	Cost of X a Single	Estimated = Cost
________	________	________	$________	$________
________	________	________	$________	$________
			Total	$________

Once you have a figure on what your advertising for the next 12 months will cost, compare it with industry averages. Since advertising expense is one of the operating ratios (expenses as a percentage of sales) which trade associations and other organizations gather, finding this information may be easier than you think. Industry Canada has an online information source called *Strategis*. Available through the Internet at http://strategis.gc.ca, *Strategis* is an excellent information source, providing up to date statistics on specific industry sectors in Canada. If your estimated cost for advertising is substantially higher than the industry average, you may want to take a look at your costs. Determining how much to spend on advertising comes down to the question, "How much can I afford to spend and still do the job that needs to be done?".

Section Three - Selling To Customers

To complete your work on marketing, you need to think about what you want to happen after you get a customer. Your goal is to provide your service, satisfy customers, and put money into the cash register.

One-time customers won't do the job. You need repeat customers in order to build a profitable sales volume. When someone returns for your service, it is probably because he/she was satisfied by his/her previous experience. Positive word of mouth spread by satisfied customers is the best (not to mention least expensive) form of advertising.

If you have already decided to work on a strictly cash basis, you may want to re-think your decision. Many people like to buy on credit. Often a credit card, or other system of payment (i.e. debit) is needed to attract and hold customers.

- *Fixtures and Equipment*

  No matter whether or not customers will come to your place of business, there will be certain equipment and furniture you will need in your place of business which will allow you to perform your services. List that equipment and its cost to you.

- *Parts and Materials*

  You will probably need some kind of parts or materials to provide your service. List them and their cost to you.

  Before you make any supply arrangements examine the supplier's obsolescence policy. This can be a vital factor in service parts purchasing. You should also look at the supplier's warranty policy.

  Now that you have determined the parts and materials you will need, you should think about the type of stock control system you will need. A stock control system should enable you to determine what needs to be ordered on the basis of what is on hand, what's on order and what is being used. Some trade associations and suppliers provide systems to members and customers.

  When you have decided on a system for stock control, estimate its cost. My system for stock control will cost me $____________ for the first year.

- *Overhead*

  List the overhead items that will be needed. Examples are: Rent, utilities, office help, insurance, interest, telephone, postage, accountant, payroll taxes, and licenses or other local taxes. If you plan to hire others to help you manage, their salaries should be listed as overhead.

Getting The Work Done

An important step in setting up your business is to find and hire capable employees. Then you must train them to work together to get the job done. Obviously, organization is needed if your business is to produce what you expect it to produce, namely profits.

Organization is essential because you as the owner-manager cannot do all the work. As your organization grows, you have to delegate work, responsibility and authority. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. An organization chart for a small service business will reflect the fact that the owner-manager does most of the managing.

An additional aid is determining both what needs to be done and who will do it. List each activity that is involved in your business. Next to the activity, indicate who will do it. You may chose to do this by name or some other designation such as "worker #1". Remember that a name may appear more than once.

Put Your Plan Into Dollars

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investment, the major source of money is the sale of your services. What dollar volume of business do you expect to do in the next 12 months?

- Expenses

  In connection with your annual dollar volume of business, you need to think about expenses. If, for example, you plan to do $100,000 in business, what will it cost you to do this amount of servicing? And even more important, what will be left over as profit at the end of the year? Never lose sight of the fact that profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money you invested in it.

- Start-Up Costs

  If you are starting a new business, list the following estimated start-up costs:

Fixtures and equipment	$ ____________
Starting inventory	$ ____________
Office supplies	$ ____________
Decorating and remodelling	$ ____________
Installation of equipment	$ ____________
Deposits for utilities	$ ____________
Legal and professional fees	$____________
Licenses and permits	$____________
Advertising for the opening	$____________
Operating cash	$____________
Other expenses	$____________
Total	$____________

Whether you have the funds (savings) or borrow them, your new business will have to pay back these start-up costs. Keep this fact in mind as you work on the "Expenses" section, and on other financial aspects of your plan.

- Break Down Your Expenses

  Your quick estimate of expenses provides a starting point. The next step is to break down your expenses so they can be handled over the next 12 months.

- Matching Money and Expenses

  A budget helps you to see the dollar amount of your expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the firm's bills on time? The answer is "maybe not" or "I hope so" unless the owner-manager prepares for the peaks and valleys that are in many service operations.

  A cash forecast is a management tool which can eliminate much of the anxiety that can plague you if your business goes through lean months.

- Is Additional Money Needed

  Suppose at this point you have determined that your business plan needs more money than can be generated by sales. What do you do?

  What you do depends on the situation. For example, the need may be for bank credit to tide your business over during the lean months. This loan can be repaid during the fat sales months when expenses are far less than sales. Adequate working capital is necessary for success and survival.

  Whether an owner-manager seeks to borrow money for only a month or so or on a long term basis, the lender needs to know whether or not the store's financial position is strong or weak. Your lender will ask to see a current balance sheet.

  Even if you don't need to borrow, have your accountant draw up a balance sheet of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your store's checking account. It is never too early to build good relations with your banker, to show that you are a manager who knows where you want to go rather than a store owner who hopes to make a success.

Control And Feedback

To make your plan work you will need feedback. For example, the year end profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the income statement or profit and loss statement (P and L) may be more of a loss than a profit statement if you rely only on it. You must set up management controls, which will help you to ensure that the right things are being done from day to day and from week to week. In a new business, the record-keeping system should be set up before your business opens. After you're in business is too late. For one thing, you may be too busy to give a record-keeping system the proper attention.

The control system that you set up should give you information about stock, sales, and distributions. The simpler the system, the better. Its purpose is to give you current information. You are after facts with emphasis on trouble spots. Outside advisors, such as an accountant, can be helpful.

- Stock Control

  The purpose of controlling parts and materials inventory is to provide maximum service to your customers and to see that parts and materials are not lost through pilferage, shrinkage, errors, or waste. Your aim should be to achieve a high turnover on your inventory. The fewer dollars you tie up in inventory, the better.

  In small business, inventory control helps the owner-manager to offer customers efficient service. The control system should enable you to determine what needs to be ordered on the basis of what's on hand, what's on order and what has been used.

  In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. You will also have costs such as the cost of purchasing, the cost of keeping control records, and the cost of receiving and storing your inventory.

- Sales

  In a small business, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you will need answers to questions such as: How many sales were made? What was the dollar amount? What credit terms were given to customers?

- Disbursements

  Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You need to know what major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make judgements on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax moneys such as payroll income tax deductions, are set aside and paid out at the proper time.

- Break-Even Analysis

  Break-even analysis is a management control device because the break-even point shows how much you must sell under given conditions in order to just cover your costs with no profit and no loss.

  Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profits. To figure a break-even point, fixed costs, such as rent, must be separated form variable costs, such as the cost of sales and other items listed under controllable expenses on the expense worksheet.

The formula is:

$$\text{Break-even point (in sales dollars)} = \frac{\text{Total fixed costs}}{1 - \frac{\text{Total variable costs}}{\text{Corresponding sales volume}}}$$

An example of the formula is: Bill Jackson plans to open a laundry. He estimates his fixed expenses at about $9,000 the first year. He estimates his variable expenses at about $700 for every $1,000 of sales.

Break-even point =

$$\frac{\$9{,}000}{1 - \frac{700}{1{,}000}} = \frac{\$9{,}000}{1 - .70} = \frac{\$9{,}000}{.3} = \underline{\$30{,}000}$$

Is Your Plan Workable?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan before you back it with money. If the plan is not workable it is better to learn it now than to realize 6 months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for one year. If any of your cost items are too high or too low, change them. You can write your changes in the spaces above or below your original entries on that worksheet. When you finish making your adjustments, you will have a revised projected statement of sales and expenses for 12 months.

With your revised figures, work out a revised break-even point. Whether the new break-even points look good or bad, take one or more precautions. Show your plan to someone who has not been involved in working out the details.

Your banker or other advisor outside of your business may see weaknesses that fail to appear as you poured over the details of your plan. They may put a finger on strong points which your plan should emphasize.

Implementing Your Plan

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

A successful owner-manager does not stop after he has gathered information and drawn up a plan, as you have done in working through this publication. He begins to use his plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action. What needs to be done will depend on your situation. For example, if your business plan calls for an increase in sales, one action to be done will be providing funds for this expansion.

Have you more money to put into this business?

Do you borrow from friends and relatives? From your bank? From your suppliers by arranging liberal commercial credit terms?

If you are starting a new business, one action step may be to get a loan for fixtures, employee salaries, and other expenses. Another action step will be to find and hire capable employees.

Keeping Your Plan Up To Date

Once you put your plan into action, watch for changes. They can cripple the best made business plan if the owner-manager lets them.

Stay on top of changing conditions and adjust your business plan accordingly.

Sometimes the change is within your company. For example, several of your employees quit their jobs. Sometimes the change is with customers. For example, their desires and tastes shift. Sometimes the change is technological as when new raw materials on the market create the need for new processes and procedures.

In order to adjust your plan to account for such changes, an owner-manager must:

- Be alert to the changes in your company, line of business, market and customers
- Check your plan against these changes
- Determine what revisions, if any, are needed in your plan

The method you use to keep your plan current, so that your business can weather the forces of the market place, is up to you.

Read the trade papers and magazines for your line of business. Another suggestion concerns your time. Set some time - two hours, three hours, whatever is necessary - to review your plan periodically. Once each month, or every other month, go over your plan to see whether it needs adjusting. If revisions are needed, make them and put them into action.

For more information or guidelines on preparing a business plan, you may want to try the following Web sites:

• Interactive Business Planner	http://www.cbsc.org/ibp
• Royal Bank – Tools for Business	http://www.royalbank.com/business/tools/bigidea.html
• Strategic Business Planning Co.	http://www.bizplan.com
• TD Business Planner	http://www.tdcanadatrust.com/smallbusiness/planner.html

Source: U. S. Small Business Administration

MARKET ANALYSIS

Your Customers:

- Who are they? Age, sex, income?
- Where do they live, play, shop?
- How often do they buy? Seasonal?
- Cash, credit, or debit?
- Can you afford to carry accounts receivable?
- How big in dollar terms is your market potential?

Your Products:

- Are they unique, eye appealing?
- Better designed, higher quality?
- What sizes, any special packaging?
- Is there a need for your products?
- Must you offer a guarantee?
- What will be your return policy?
- Must you stock parts for service?

Buying:

- How much of each will you buy? From whom?
- Are you getting the best deal?
- Is volume discount eaten up by slow turnover?
- Can you return unsold merchandise?
- Have you a stock control plan to avoid overstocks, under-stocks, and out of stocks?
- Have you established a line of credit with each supplier?
- How must you pay? C.O.D.? 30 days? 60 days?

Pricing:

- Do you know what to charge to cover costs?
- Are your prices competitive?
- How important is low price?
- Is service more important?
- Must you give cash or volume discounts?
- What will discounts do to your markup?
- Must you include delivery cost in your price?

Advertising:

- How much is normal for your products?
- What media? How often? Seasonal?
- Do you have a logo or trademark? Is it registered?
- Is any free publicity available?
- Will you need an advertising agency?
- What is your product image?

Your Competition:

- How big, how old, how strong?
- What percentage of the market do they have?
- How far away?
- What advantages do you have?
- What advantages do they have?

GUIDE TO MARKET RESEARCH AND ANALYSIS

Introduction

Successful businesses have extensive knowledge about their customers and their competitors. Acquiring **accurate** and **specific** information about your customers and competitors is a critical first step in market investigation and development of a marketing plan. Accurate market assessment and development of an effective plan is critical to the success of both new and existing businesses. The market impacts and directs all aspects of the company's activities and ultimately will lead to success or failure of the business. In developing a market plan, your primary functions are to understand the needs and desires of your customer, select or develop a product or service that will meet customer needs, develop promotional material that will make the customer aware, and ensure product or service delivery.

Market Analysis

- Who is your customer?

  Knowledge of the customer enables you to determine the market size and what determines their buying decision. It provides information that will assist in choosing a location, determining products or services to be offered, establishing pricing, and planning a selling strategy.

  Key issues to consider are:

  - Who will buy your product? Primary and secondary target groups.
  - Where does the buyer live and what is their profile?
  - What factors influence the decision to buy?
  - Who is involved in the purchase decision?
  - How often will buyers buy?
  - Where do they buy, when and how much do they buy?
  - What are the buyers' preferences and needs?
  - Are customers loyal? Can long-term relationships be built?

- What product or service are you selling?

  An important aspect of market analysis is to ensure that the product or service meets the market (customer) needs. Product or service focus must be the customer.

  Issues to address are:

  - Specifications of all your products and/or services and key features relative to what prospective buyers in your target market are saying they need.
  - Comparison with competitors and how customers perceive your product relative to others available.
  - What are the current trends, what stage of maturity is the product life cycle at?
  - What regulations apply to your product or service?
  - What packaging is required?

- Who is your competition?

  Are there competitors that exist now and what new competitors are likely to enter the market? How will your product or service compare and what is the probable reaction of your competitors once you enter the market?

Issues to consider are:

- Who are your major competitors?
- What share of the market do they have?
- What are their strengths and weaknesses (i.e. quality, price, service, payment terms, location, reputation, finances, etc.)?
- How do you compare to your competitors and how will they react to your entry into the market?
- What factors are there that could increase or reduce your competition?

- What is your target market?

  Accurate identification and analysis of the target market enables you to develop an effective overall marketing strategy. The information will assist in determining business size (output requirements), distribution channels, pricing, promotion strategy, and other marketing decisions.

  Target market issues include:

  - What is the overall market size? Number of potential customers and physical boundaries?
  - Which segment of the market is the most attractive in terms of future growth potential, ease of entry, competition, profit potential, and overall risk?
  - How do products generally get to the customer?
  - What is the current dollar value or quantity of product/service being sold into each segment of the market?
  - What social, technical, environmental, or economic changes are taking place within the market and how will they impact sales?

- What are your distribution channels?

  There may be many options for moving your product to the customer such as direct retail, wholesale, consignment, broker, etc. The method of distribution has important implications affecting your pricing structure, advertising message, cash flow, etc. You will want to choose the distribution method best suited for your product and where you want to be positioned in the marketplace.

  Key issues are:

  - What methods of distribution are best suited for your product?
  - What methods of distribution do your competitors use?
  - What are the costs relative to market coverage?
  - Does your level of available capital or production capacities restrict your choice of distribution methods?
  - Are there ownership opportunities in the supply chain?

Pricing

The objective is to maximize profits while remaining competitive in the marketplace. Pricing can be based on either the cost price or market price (what will the market pay?). Regardless of the pricing method used, it is critical to know all of your costs involved in delivery of your product or service to avoid possible underpricing and operating losses. If the market will not support a price level sufficient to cover cost, it will be necessary to investigate whether costs can be lowered or alternatively, it may be necessary to abandon your plans to proceed.

Issues to consider are:

- What control do you have over the product price? (i.e. exclusive product, no competition, high market demand, etc.)
- What are competitor prices and how do they price their products?
- What price and sales volume are needed to achieve profit objectives?
- Can you sell your product at different prices into different markets?
- Can you maintain your prices over time and what do you expect to happen to competitors prices?
- Are your prices quantity sensitive?

Promotion and Selling

Promotion of your product or service and development of a promotion strategy is part of the market analysis. It is important to analyse what are the best methods of making your customers aware and what message will motivate them to buy. From the promotion strategy, the advertising budget and overall sales plan are then developed.

Items to consider are:

- What media of advertising and sales do your competitors use?
- What media of advertising is best suited to reach your customer? Primary and secondary media (i.e. Primary - newspaper and radio; Secondary - fliers and trade shows.)
- What sales tools and training will be required for staff?
- What image are you attempting to build through your promotion?
- Packaging?
- Are you going to use professional marketing services?

Note: While customer service, in store display, and merchandising are not part of the market analysis, they are an important part of the business image and promotion package. Ongoing attention should be given to these areas to assure maximum promotional benefit is achieved and that the desired image is portrayed.

Primary / Secondary Data Sources

Primary data is the information you will obtain through your own efforts or by hiring someone, and can include observation, surveying, and experimentation.

Secondary data consists of information that has been gathered by someone else and is relevant to the venture you want to establish. Examples of sources and types include:

- **Canada - Sask. Business Service Centre - (306) 956-2323 or 1-800-667-4374 http://www.cbsc.org/sask/**

- **Statistics Canada - (306) 780-5405 or 1-800-263-1136 http://www.statcan.ca**

    - **Profiles of Census Divisions and Subdivisions in Saskatchewan - Catalogue # 95-189XPB [1996 statistics]**
    - **Family Expenditures in Canada Catalogue # 62-555** - This publication will highlight average family expenditures for a variety of consumer items.

- **Household Expenditures Research Paper Series Catalogue# 62F0026M1E -** This publication will highlight types of equipment located in various households throughout Canada.
- **Information of Product & Services in Saskatchewan Part A & Part B Catalogue # 94-115 and 94-116**
- **Family Food Expenditures Catalogue # 62-554 -** Highlights dollars spent on various types of food per household.

- **Saskatchewan Health – 1-800-458-1179 or (306) 787-3092 or http://www.health.gov.sk.ca**
  - **Covered Population –** http://www.health.gov.sk.ca/info_center_publications.html - This publication will provide a detailed breakdown of Saskatchewan's population by residence, age group and sex.
- **Saskatchewan Labour - (306) 787-5605 or http://www.labour.gov.sk.ca**
  - **Wages and Working Conditions by Occupation -** This information will be useful as a benchmark in projecting employee wage costs (787-2391).
- **Canada Post - (306) 668-6723 or 1-800-267-1177 or http://www.canadapost.ca**
  - **Demographics and Income Statistics for Postal Areas**
  - **Household Figures for Letter Carrier Offices -** Lists populations for various postal code communities in Canada.
  - **Household Figures for Non-Letter Carrier Offices**
- **Saskatchewan Department of Highways - (306) 787-4800 or http://www.highways.gov.sk.ca**
  - **Average Daily Traffic Volume Map Counts** - Traffic volume profile of various traffic routes.
- **Local Municipal, Provincial, and Federal Government Departments and Agencies**
- **Business and Industry Associations / Trade Publications / Periodicals**
- **Business and Industry Trade Shows and Exhibitions**
- **Local Public, Business, and Educational Institution Libraries**
- **Business and Popular Press**
- **Business Professional Services, i.e. Accountants, Lawyers, Consultants, Insurance Brokers, Financial Institutions**
- **Business and Educational Seminars / Courses, etc.**
- **Other Business People / Known Acquaintances / Competition / Internet**

When researching your business idea, it is important to do as thorough a search for information as is possible. It is also recommended to do as much of it as you can on your own. This will help you to know the market for your idea better, and can help to keep the costs down at the start. The information you have gathered yourself can form an important base of information from which a consultant can work from, and as well, will allow you to identify more specifically what you want them to do for you, particularly when there will be costs associated with their services.

MARKETING PLAN OUTLINE

A marketing plan is designed to direct company activities towards the satisfaction of customer needs. Therefore, determine what the customers want, develop a product/service to meet those needs, get the product/service to the end user, and communicate with the customer.

Introduction

WHO	is the company, principals, employees, community?
WHAT	is the product/service, what is the company's goal in the short-term and long-term?
WHERE	is the plant to be established?
HOW	does the company intend to meet its objectives, production levels, sales volumes?
WHY	was the product/service developed, what are its attributes or qualities, and how is it superior to existing products?

Target Markets

- What is the company's initial proposed market?

    - local
    - provincial
    - western provinces
    - national
    - international

- How does the company fit in the chain of basic markets?

    - consumer
    - industrial
    - government
    - international
    - supplier
    - manufacturer
    - wholesaler

- What are the target market boundaries?

    - by consumer group demographics
    - by geographic region

- Define the dollar value of total potential sales within the proposed target market.

- Describe the targeted user groups by age, gender, lifestyle, income, education, values.

- Define the company's sales level objectives and what percentage of total market share they represent.

- Describe how planned production capability compares to proposed market demand.

- Outline any outside influencing factors which may affect the marketability of the product, and how they can be overcome:
    - packaging/labelling regulations
    - GST/E&H Tax (effect on consumer price acceptance)
    - buyer preferences (i.e. health food vs. junk food)
    - technology changes to production (extrusion method)
    - environmental preservation considerations

- Describe when the product/service is usually purchased; on impulse or as a regular shopping item. Does the proposed marketing strategy address these trends?

- Who usually does the purchasing of the product/service? Who makes the purchasing decision? Is the marketing strategy properly directed to this group?

- Describe the varieties of the product available:
    - by flavour
    - by size or colour
    - by options available
    - by price

- What are the markets for each of the above?

- Where is the product normally purchased?
    - supermarkets / grocery stores
    - retail chains
    - convenience stores
    - snack bars / vending machines
    - gas bars
    - schools
    - factory outlets
    - catalogue
    - Internet

- Are the marketing efforts properly targeted to these locations?

Market Demands

- Who is the competition (i.e. domestic or foreign)?

- What are their products/services?

- How does this product/service compare by quality, price, packaging and variety?

- What percentage of the total market does each competitor enjoy?

- What can this company realistically expect to obtain as market share (provide sales forecasts)?

- What does the public normally demand from this type of product/service? Does it meet these demands?

- Does the packaging (sales aids/point of purchase displays) emphasize the qualities of the product/service?
- What level of sales growth is anticipated over the next three years? Can the plan deliver the production levels necessary to support this growth?
- What is the company's long range plans?

Product Pricing

- What is the consumer acceptance price range for this type of product/service?
- How does the proposed product's/service's price compare?
- Is there sufficient margin between the manufacturer's cost and the consumer acceptance price level to provide for mark-ups at the wholesale, distributor and retail level?
- Does the price allow for freight, projected profit, price fluctuations in the market place and consumer interpretation of value?
- Are coupons or discounts being considered to promote consumers to try other flavours, etc.?
- What is the product cost breakdown?
    - Costs of goods sold
        - direct labour
        - direct materials
    - Operating expenses
        - selling expenses
        - communications expense
        - general and administration expenses (including freight)
- What markups are allowed at each level of distribution (markup chain and channel pricing)?

  For example:

Manufacturer		Wholesaler		Retailer	
Cost	90%	Cost	80%	Cost	60%
	+		+		+
Markup	10%	Markup	20%	Markup	40%
	=		=		=
Selling Price	100%	Selling Price	100%	Selling Price	100%

- Are the most economical/cost efficient methods of processing and packaging utilized (including raw materials inputs) to keep product/service costs down?

Distribution Channels

- How does the company plan to get the product/service to the end user?
- What channel of distribution is to be used?
    - direct - manufacturer to consumer
    - one-stage - manufacturer to retailer to consumer
    - traditional - manufacturer to wholesaler to retailer to consumer
    - multi-stage - manufacturer to broker to wholesaler to retailer to consumer
- Who/what company will carry out the distribution?
- Are commissioned salespersons to be used?
- What are the costs associated with the proposed distribution channels?
- How do these channels effect delivery/production time frames?
- What are delivery terms (i.e. just-in-time inventory systems)?
- How are products to be packaged for shipping, end-user display? What physical handling is required?
- Are display aids (clip racks, bins, etc.) to be provided to retailers?
- Does packaging meet regulatory agency requirements (labelling, seals, etc.)?
- Is packaging eye appealing, complementary to product, portraying universal labelling, coded, priced?
- Is there a method for feedback on customer satisfaction, quality control?
- What minimum shipping orders are required?
- What minimum inventory levels must be maintained to ensure no loss of sales due to late deliveries, back orders, split shipments?
- What system is to be used for processing orders, shipping, billing?
- What trade terms will be offered?

Promotions/Advertising

- Describe the company's "communications package".

  For example:

    - advertising
    - selling
    - sales promotion
    - publicity

- How much is budgeted in Year 1 in each category?

    - Advertising
    - What percentage of each media is to be used in your overall advertising package?

        - television
        - radio
        - newspapers
        - magazines
        - billboards
        - business cards
        - co-operative advertising with wholesalers/retailers
        - Internet
        - other (i.e. transit advertising)

- Selling

    - What type of sales persons are to be used (food brokers, commissioned salespersons, etc.)?
    - What tools are to be provided to salespersons to assist getting orders (volume discounts, purchasing shelf space, etc.)?
    - Will a sales training program be offered?
    - How will sales effectiveness be measured?
    - What incentives will be offered to salespersons for new accounts, achievements?

- Sales Promotion

    - What sales promotion activities are planned?

        - point of purchase displays/sales aids
        - samples
        - coupons
        - contests

    - What costs are associated with each?

- Publicity

    - How does the company plan to 'kick off' the introduction of the product using publicity?

        - endorsements (Sask-Made)
        - testimonials
        - referrals
        - truck signs
        - consistent visual theme

GUIDELINES FOR DEVELOPING A COMPANY BROCHURE

1. A brochure is an essential part of your promotional program. It should be reinforced by subsequent promotional activities such as advertising, personal sales calls, and public relations.

2. Before you talk to suppliers of services such as printing or graphics design, you should put down in writing the following:

   - Define your products and/or services.
   - What is the market you serve?
   - Who are your target customers?
   - What benefits are you offering?
   - What problems do you solve?
   - Proof of your capability/product
     - experience
     - number of satisfied customers
     - testimonials/references
   - What do you expect promotional literature to accomplish...
     - bring in orders?
     - introduce your company/product?
     - serve as a reminder?

3. Decide what you want to say and whom you want to say it to.

4. Don't try to say too much. Save some of your promotional story for other occasions because information overload may be confusing to the audience.

5. Select your supplier(s), a creative firm, and/or printer. Meet with them to discuss your objectives, needs, and budget. Make sure they understand your requirements.

6. Write a covering letter, one page maximum, to be sent to prospective customers along with the brochure.

7. Follow up!

   A single promotional activity rarely results in an order, so be prepared to use several subsequent activities such as personal visits, telephone calls, and further mailings.

HOW TO HAVE A POSITIVE BUSINESS IMAGE

- **Always make the customer your first priority!**

  Your business exists because of your customers, and they should be the primary focus of your operations. Uncaring, impersonal service can be disastrous; most unhappy customers never complain but they won't buy again and they will tell many others.

- **Make the job look easy.**

  Ensure staff are well trained and competent for the job required.

- **Don't complain or indicate inconvenience.**

  A cheerful and efficient "can-do" attitude keeps customers happy.

- **Use the creativity and experience of your staff!**

  Delegate, encourage, empower, and communicate with staff. Employees will be more productive and you will have more time to manage operations rather than 'putting out fires'.

- **Listen to requests, accept changes, and respond positively to uncertainty.**

  Customers may require order changes affecting existing arrangements. How these requests are serviced is important to the purchaser and their comfort level for making future orders.

- **Approach tasks with confidence, perform effectively and follow-up quickly on problems.**

- **Emphasize quality.**

  Price, quality, and service are the three main areas of comparison when making a purchasing decision. Purchasing decisions are seldom based solely upon price.

- **Increase the knowledge level of your customers.**

  Ensure customers know the full range of services provided in order to get sales in new areas. Communicate with the customer regarding information affecting the purchase decision (i.e. timing/availability/freight, etc.).

- **Ensure work is done in a timely and efficient manner.**

  Set internal deadlines for accomplishing tasks as a standard for service.

- **Get involved in your community and give something back to it.**

  Providing time or money to worthy local charities and groups will create goodwill from fellow citizens and the community from which you profit.

- **Be honest with customers and discuss difficulties frankly with them.**

  Deal with people in a forthright and timely manner to eliminate potentially negative situations before they occur. Make people aware that a problem exists. Communicate effectively with your customers.

DEVELOPING NEW ACCOUNTS

Summary

New customers and more sales are essential for profit and growth. The small business owner-manager especially should have a specific program for regularly developing new accounts. This publication presents a systematic approach to finding, getting, and keeping customers whose sales volume produces profit for you.

Developing New Accounts

The problem of developing new accounts is a common one. A frequent lament of sales managers is "we just don't have enough new accounts to provide the volume we need." In most companies, a five percent improvement in sales volume will have a most favourable profit effect. It will equal or exceed, for example, a comparable percentage improvement in costs of material and services, productivity, inventory management, or control of receivables.

How to acquire the accounts to provide such added volume becomes a matter of prime importance to survival and growth. In a great many businesses, small and large, the matter of new customer acquisition is approached in a haphazard, intermittent, unplanned, and uncoordinated way. The results are understandably often less than satisfying, more expensive than expected, and generally inadequate from the standpoint of contribution of profit.

Useful insight into the problem of getting new customers can be obtained by considering the sales department as a purchasing function, spending company resources by investing in customers and sales volume. The controls, systems, thought and effort devoted to finding the right source of materials, provide for the most effective and evident management concern relative to its purchasing activities. Disciplines are established and controls are in place to measure supplier and purchasing effectiveness. Alternate bids are secured and potential suppliers critically tested for quality and service. Capital expenditures are closely evaluated. Yet the problem of investing to get a new customer, one who is expected to deliver profitable sales over an extended period of time, is often reduced to a simple charge to the sales department of 'more customers'!

In most cases the **investment** in customer acquisition is heavy, scattered, unmeasured, and unplanned. The money spent on this type of effort consists of advertising dollars, sales salaries and expenses, phones, samples, administrative time, and often expensive engineering costs.

The alternative to the shotgun approach to customer or account development is usually less expensive and substantially more productive. It involves some straightforward initial analysis and planning; inexpensive enough for the smallest business. It may likewise involve a change in attitude and emphasis that says that the business of investing in a customer ought to be a selective, investigative, consistent, and planned process; worthy of the closest attention of the managing sales executive. Finding and developing a worthwhile customer is a different objective from simply 'more sales' or 'more accounts'.

The procedure involves ten steps, formalized to the degree necessary for the needs of the enterprise.

These are:

- Specify
- Quantify
- Identify
- Qualify
- Convince
- Service
- Collect
- Measure
- Expand
- Repeat

The first seven are initially critical. A substantial account that does not pay is no 'customer'.

Specify

The first step is to decide what kind of customer is needed. This involves a brief customer 'specification'. No one just buys steel or a machine tool or a truck. The kind of steel, its characteristics and its yield are matters of instant concern. Are we trying to buy a simple drill press or a numerically controlled multiple spindle processing unit? Does the truck have to carry one tonne or ten tonnes, and what is to be hauled? Good analysis of the strengths or deficiencies of your *present* customer accounts can help in preparing your customer specification.

The Customer Specification Might Read: Must be within 100 miles. Must be potentially capable of repeat purchases of product 'x' totalling $50,000 per year. Must appreciate value of services as opposed to being strictly a price buyer. May be an intermittent process operation where downtime is a critical concern. Frequent changeovers. Quality conscious buyer. Pays promptly on terms. Probably in the North American Industry Classification System (NAICS). May currently be using product supplied by National or Atlas. Size indicator: at least 100 employees, reasonable in-house maintenance program, evidence of sales growth. Objective: profit contribution rate of 30 percent.

Or the Specification Might Be Simply: Companies in the meat processing industry, in Saskatchewan, Manitoba, Alberta, (beef, lamb, pork, fowl) engaged in slaughter and/or portion pack, handling over 100 head/day equivalent;

Or: Independent distributors of products associated with the material handling industry in major trading centres in the Prairie region, having a sales force of no less than five, and carrying recognized domestic truck brands calling on local industry, particularly food processors. Must have repair facilities.

Quantify

How many this quarter or this year? "To provide the type of business required, two new accounts with volume potential of $50,000 each are needed in each of the remaining quarters of the year, plus five new smaller accounts in each quarter with a potential of $25,000 to $30,000 annually." Or, "Need an average of three new small machine accounts in each territory, each quarter, with potential of supply sales of $2,500 each per year following installation."

Comment: The new growth is admittedly a necessary consideration for growth. Some businesses, however, become so concerned with the new account syndrome that they overlook the very real, often untapped, potential of *existing* accounts. By proper attention to maintenance selling, accounts on the books can be upgraded, expanded to new applications and in effect, become new for all practical purposes. The maintenance aspect of selling is often minimized because the battle has been won - the customer is on the books. Neglect gives your competitors the opportunity to develop a new account by taking away one of your customers. In most cases, developing an existing account is much less costly than acquiring a new one.

Identify

Having specified and quantified the type and number of accounts wanted, the next step is to identify and screen the most likely candidates in the most direct and least expensive way.

A few days devoted to secondary research can prove rewarding. The precise method depends on the scope of the project, the number of required new accounts, and the geographic area involved.

For the smaller local business, the telephone directory is an obvious, available, and well organized reference for new accounts. In fact, a study of the directories for several cities provides a fast, comprehensive, and specific source of information for the significant trading centres in a region.

Such listings display products and services offered for sale, the nature of the services offered (like wholesaling, retailing or manufacturing), the specific location, phone, and postal code reference. If the listings are regarded as definitive, with a little deduction, you could determine what such firms buy for resale or buy as original equipment for use in their businesses. For example:

> Acme Rat Exterminating Products: Rentals, Service, Parts - Rat Poison, Roach Spray, Ant Bait, Bird Repellent, Rat Guards, Animal Traps, Chimney Screens, Sprayers (all types), Electric Fly and Mosquito Killers, etc., including map, address, phone, and brands handled.

Under 'Mailing Lists', the yellow pages also give substantial listings of sources that provide listings of various types, often very specific as to North American Industry Classification System (NAICS) number, address, and names of relevant contacts. Purchase of one or more lists across the developed specification provides a fast way to be selective.

All things considered, the time and money devoted to even modest preplanning data research is well spent.

Lists that can be bought generally key on NAICS numbers that, depending on the number of classification digits, give names, size indicators, etc.

Other useful and readily available secondary sources of names are directories of associations, clubs, laboratories, manufacturers, chamber of commerce releases, mail order catalogues, and the like. The limit is only imposed by the extent of creative imagination of the research. The various desks in the federal and provincial offices and the public and university libraries are extremely helpful. Often license, permit and registration data are available and useful.

For further NAICS information check the website at http://www.census.gov/epcd/www/naics.html or go directly to the web page with the NAICS codes and titles at http://www.census.gov/epcd/naics/naicscod.txt.

Qualify

One of the better sources of new accounts among existing users of a product or service is your direct or indirect competitor.

Examination of the sales literature, catalogues, and trade releases of a competitor often reveals a pattern of distribution, a listing of good reference accounts, and often the details of best applications. Review of competitive advertising likewise points up many useful areas of concentration, selling methods, and coverage of what competitors regard to be their major markets.

Placing yourself in the role of a *buyer* of your own product or service is useful in identifying a competitor's influence points, likely user references, other applications that might not have occurred to you. Your own representatives can be helpful. In other words, shop around for your own product and see who else touches end users in the distribution process. Each is a potential source of useful information. A frank discussion with some of your good customers will produce names of *their* competitors who might become your customers as well. Even on a limited basis such efforts are most rewarding.

Your purchasing agent can be a most useful source of qualifying information because the agent talks to sales representatives who talk to your competitors. In the field of selling, detailed attention to your competitors' activities can be as equally rewarding as attention to your own customers from the standpoint of identifying new customer opportunities, advantages, deficiencies and needs. The cost is reasonable - an open ear.

When the list is reasonable - identified, broadly qualified and *manageable*, the personal contact or specific qualification phase begins. This takes time, but the effort will be spent on a modest group of targets that have been screened against your broad specification, qualified roughly at minimum cost and have a high probability of productivity.

Good mailing lists tied to selected group targets can help identify new accounts. By a proper offering (i.e., to conduct a free survey, to provide a sample, to solve a specific problem, to offer a study result, to provide a modest prize for best new applications, etc.) a user response can be obtained. From these responses you can qualify the potential of prospective new accounts.

Learning more about your end users can also uncover buyer habits and identify characteristics indicative of a larger group. For instance, return warranty or registration cards could give you this information from comments or answers to a few basic questions about the product by users. This information can be matched to a larger group, expanding your viewpoint.

Look also for customers among users of alternative products or services to yours. For example, users of plastics are currently converting to die cast for various reasons. Gray iron castings can often be converted stamped parts or forgings. Automobile buyers are acquiring motor bikes and supermarket shoppers are buying less at the store and eating out more at fast food restaurants. Such habits may bring back some lost customers or make you vulnerable to pressures from indirect competition.

Convince a potential user to try your product or service is the next step after you have found and qualified your prospects. This step is the pay off for all your efforts and investment to attract *qualified* customers. Convincing the potential user to try your product or service is often similar to qualifying customers according to your specifications.

You search in a specific market area for customers that are stable companies with solid needs for your products or services. They will do repeat business and pay their bills. And you are able to come to terms and do business with them.

Keeping customers involves giving service, getting paid, measuring account profitability, expanding customer buying, and then repeating all the steps to get and to keep good customer accounts.

Remember, treat old customers the way you service new ones and you may not need so many new ones.

The Profit Evaluation

How did you do against the measure you set out for yourself? Is the trend better? Are your new customers delivering the quality of volume that you want? Tracking your progress is very important. Imagine you were shooting for no increase in fixed costs and $70,000 more profit contribution on the bottom line from new accounts.

Chart your actual results:

New Customer	Net Sales Volume	Variable Costs to Make and Sell	Contribution to Fixed Costs and Profit $	%	Evaluation
A	$100,000	$ 90,000	$10,000	10%	Poor
B	50,000	30,000	20,000	40%	Excellent
C	100,000	70,000	30,000	30%	Satisfactory
D	80,000	72,000	8,000	10%	Poor
	$330,000	$262,000	$68,000	20.6%	Average

There is more to getting new accounts than just chasing the volume they produce. Obviously the quality of the volume is more important. Measure your required standard, not just for the amount of volume, but for the *profit* yield of the volume and the trend for the future.

The new customer development method proposed here emphasizes the who, what, why, when, and where of volume rather than merely the how much. This takes thoughtful planning, detailed research/screening and some expense, but you do get profitable results.

Source: U.S. Small Business Administration

SIGNS AND YOUR BUSINESS

Summary

Have you considered the impact that your sign has on your business?

This publication discusses signs, what they can do for your business, and how they can be used to your advantage. A checklist for ordering a business sign is also provided.

Introduction

Signs are one of the most efficient and effective means of communication. Signs help people find you; they reach people who are passing by your establishment; they present an image of your business. In short, signs tell people who you are and what you are selling.

Signs are such a powerful communication medium that it is difficult to estimate the extent of their influence. Other media require the directed attention of the person receiving the message. Signs, however, can convey a message while creating a mood or feeling of atmosphere. It is not necessary for people to give full attention to your sign in order to derive meaning from its presence.

What Is a Sign?

A sign is the most direct form of visual communication available. In fact, so many people use signs without a second thought that it is easy to overlook their importance. When we cannot talk to other people directly in a given location, we tack up signs: wet paint, beware of dog, enter here, garage sale, etc. Signs are the only form of mass communication directly available to everyone.

What Signs Can Do For Your Business

Signs perform three major communication functions for your business: they give information and direction, provide a format for street advertising, and build your image.

Signs Give Information About Your Business and Direct People to Your Business Location

Signs index the environment so people can find you. This is especially true for travellers, new members of your community, and impulse shoppers who may be on a journey to purchase a particular good or service which you sell. Canadians are mobile. A primary source of customers for your business is the large number of people who are new to your community or who may be just passing through. Your sign is the most effective way of reaching this mobile or transient group of potential customers.

Signs can correct a poor location by substituting effective communication for poor site characteristics. If your business is located on a site that is not visible or in a building that does not correspond with the goods or services offered, your sign could overcome this disability. For example, most buildings are not built to conform to the design needs of any particular type of tenant. Without an effective sign it is often impossible to determine what type of business is being conducted in a given building. In addition, when your site is located off a busy traffic artery or in an area that is not easily accessible, your sign can communicate to people who are passing on a busy street several blocks away. If you are located off a busy freeway but far from an exit, your sign becomes your main device for directing people to your business. High-rise signs are used when a business is located away from potential customers' normal pathways of travel.

- Signs Are Street Advertising

  Your sign provides an easily recognizable display format for the goods or services you are selling. For most businesses the street is where potential customers are. The message conveyed on the street reaches people who are close enough to make a purchase.

  Street advertising also helps people develop a memory of your business name and the products and services you sell. People tend to buy from businesses they know.

  Signs can build an image for your business and help you identify with the market segment you are trying to reach.

  Through materials and design, a sign can appeal to a given group of potential customers. For example, some firms attempt to capture the youth market, others senior citizens, others unmarried single people and so forth. If you have a particular market segment that you wish to attract to your business, your sign can be an important means of bringing these people in.

The Advantages of Signs

On-premise signs are your most effective and efficient means of commercial communication because they are inexpensive, available, practical, easy to use, always on the job, and directly oriented to the trade area of your business.

- Signs are Effective

  Your sign is an integral part of your advertising program along with the other forms of commercial communication such as television, radio, newspapers, magazines and billboards. There are four basic criteria used to judge the effectiveness of these advertising media:

  - Coverage of the trade area
  - Repetition of a message
  - Readership of a message
  - Cost per thousand exposures of a message

  Two other criteria important for the small business owner are:

  - Availability
  - Ease of use

  Let's see how signs measure to the above criteria:

  - Signs are oriented to your trade area. Signs do not waste your resources by requiring you to pay for wasted advertising coverage. The people who see your sign are the people who live in your trade area.

- Signs are always on the job repeating your message to potential customers. Your on-premise sign communicates to potential customers twenty-four hours a day, seven days a week, week after week, month after month, year after year. Every time people pass your business establishment they see your sign. The mere repetition of the message will help them remember your business.

- Nearly everyone reads signs. Signs are practical to use for nearly everyone is used to looking at signs and using signs, even small children. Studies have shown that people do read and remember what is on signs. When special items are displayed, sales increase for these particular items within the store.

- Signs are inexpensive. When compared to the cost of advertising in some other media, the on-premise sign is very inexpensive. Table 1 indicates the cost-per-thousand-exposures for various media in a given type of community. Unless your trade area encompasses an entire city or region, where you must rely upon broad based media coverage, there is no better advertising dollar value than your on-premises sign.

- Signs are available to each and every shop owner. There is no need to schedule the use of your sign. Your sign is available to you whenever you need it and to be used however you please.

- Signs are easy to use. No special skills or resources are needed to operate a sign once it has been installed. If it is an illuminated sign, all you need to do is flip the switches and that may not be necessary with timing equipment. Once the initial expenditures are made, no special resources or professional services are needed. You need only operate and maintain your sign.

Typical Monthly Advertising Costs of Various Advertising Media

Cost Per Thousand Exposures in a Community of Approximately 130,000 Population

	Total Adult Audience/ Exposures	Monthly Cost	Cost to Reach Each 1,000 Adults
Newspapers (1¼ ad/wk.)	685,000	$1,008.00	$1.47
Radio (6 one-min. spots/wk.)	91,200	264.00	2.90
Television (6 one-min spots /wk.)	1,176,000	1,580.00	1.34
Outdoor Billboard, Painted	900,000	500.00	.56
Junior Posters	192,000	25.00	.13
Sign (8'x6' doublefaced acrylic plastic internal illumination)	1,050,000	58.33	.06

Sources: Clause, K.E. and Claus, R.J. Signage, Planning Environmental Visual Communication, Palo Alto, Calif., Institute of Signage Research, 1976, p.31.

Checklist for Ordering a Business Sign

Before you select a sign for your business there are several things you need to consider. A competent sign company in your area can help you with the answers to some of these questions if you are unsure how to obtain them.

- Who are your customers?

  Potential customers for your business are people who reside in your trade area. Most of your customers come from the immediate area within a half mile to a mile of your business location. Trade areas come in assorted shapes and sizes depending upon the business. Trade areas may also vary seasonally.

- How do you get information on potential customers?

  Plot a dot map of your customers as soon as you begin business. This is easily done by plotting the addresses of people who stop in your store (and particularly of those who purchase) as a dot on a street map of your city. Within a few months time you will have a fairly clear idea of the trade area from which you are drawing your customers. You will then be able to decide what type of sign would best meet the needs of the people in that trade area. For example, if your customers can only reach you by automobile or you are located on a very busy street, the type of sign that you use will be very different than if you have a shopping centre location and people must walk to your store from parking lots.

  Obtain your street profile from a city traffic engineer. Since your sign communicates to people who pass your business establishment, you can direct your message to potential customers if you know what type of traffic passes your door. Your city traffic engineer can provide information which will tell you: where people begin and end their trips, how people travel, when people travel by time of day, why people travel, and where they park when they reach a destination. Even small cities and towns have traffic volume maps available to tell you how many people pass by your business every day.

  Know how many new people move to your area each year. This is a potential market for your business. This type of information can be obtained from any board of realtors, chamber of commerce or police department.

- How are you going to communicate with the customers?

  In order to communicate effectively, a sign must be noticeable and readable.

  A sign must be noticeable. After a while a sign becomes part of the landscape. It loses some of its ability to attract attention. By periodically changing some small design element or by using changeable copy, a sign can continue to attract interest. Time and temperature devices or rotating and moving parts can be used to maintain interest in a commercial message. Time and temperature units also provide a needed public service.

  A sign must be readable. A sign needs to be large enough to read. You need to know how far a person is from your store when he first sees your sign and the real speed of traffic on your street. With this information, a competent sign company can use a formula to calculate the necessary size for your design and build you an effective sign.

What are you trying to say?

Decide on a message that is clear and simple.

Focus on key words. Choose one or two words that describe your business. Clever or strange names may only attract certain customers.

Be brief. The cleaner and clearer the message, the more impact it has. Listing or names or unclear symbols confuse rather than communicate.

- What image are you trying to portray?

Design of your sign is very important. Your sign tells people a lot about your business. Stark simple design and materials may suggest discount prices and no frills. Elegant and expensive sign materials may suggest luxury goods and services. Two basic design considerations are important when ordering a sign.

Physical elements of sign design. These include considerations such as size, placement, materials and structure. The size of the sign is an important consideration for your business. The biggest sign that you can afford may not necessarily be the best one for your needs. A sign should go with its surroundings. A sign that is either too big or too small will not communicate your message effectively. The number of signs is also important. Too many signs compete with one another and reduce the effectiveness of your message by presenting an image of confusion to potential customers. The materials used for your sign determine its appearance and performance. For example, differences in cost, appearance, colour, durability, flexibility and reaction to extreme weather conditions can be found in the many types of plastics available. The structure of a sign also contributes to its effectiveness. Pole covers and cantilevered construction help portray an attractive message.

Graphic elements of sign design. Graphic elements of design include layout of the message, colours, lettering, shape, symbolism, harmony, and daytime versus night-time lighting conditions.

Legibility is a test of good design. If your sign is well designed, it will be easy to read. Legibility means that the letters or characters on the sign are distinct from one another. Some colour combinations of background and letters give excellent legibility while others are very poor. To test your sign's legibility, drive past your business and see if you can read it from a distance. Look at it both day and night. Some signs are difficult to read because of illumination problems such as glare from street lights, signs on nearby business establishments, or shadows caused by buildings. A well-designed sign blends with the environment, has a message impact and overcomes viewing problems.

- How much should your sign cost?

You should consider several factors when determining the cost of your on-premise sign.

A sign is an investment. Your sign is one of the most permanent parts of your business and is exposed to weather and constant use. The average life of signs varies from five to eleven years, depending on type of materials used, construction and other factors. Find out how many years of service to expect from your sign. It pays to purchase good materials if you intend to use the sign over a period of years.

Maintenance costs. No business can afford to have its sign fall into disrepair. A dilapidated sign tells the public that you are not concerned with your business image or their visual environment. Some types of signs are virtually maintenance free while others require more attention. Find out how to replace burnt out bulbs or tubes in your sign. Determine who is responsible if the wind blows your sign down and someone is injured.

Energy consumption. New technological developments now enable some types of signs to achieve energy savings without sacrificing effects. Inquire about new energy saving bulbs and internal materials.

Owning or leasing. Many sign companies have programs whereby you can lease a sign for a given period of time and they will maintain it for you. This may be more economical for a new business, especially if there is any chance that logos or names may change in the first few years of operation. Statistics show that if a small business fails, it will happen somewhere between the first and second year of operation. Leasing a sign during this period of time might help save some of the initial capital needed for operating expenses.

Custom or standardized. Some large companies offer standardized types of signs that are cheaper than signs that are custom designed and constructed. Many of these standardized units can utilize ingenious design techniques to bring forth creativity and individuality. Often the standardized units can be arranged in different configurations depending on your needs. Some standardized sign units use the highest quality materials and are designed to be relatively maintenance free. Mass production will enable these units to be sold much cheaper than if designed and produced from scratch.

- Signs communicate in a shared environment.

A sign's ability to send its message beyond its location requires that you be sensitive to the effects of your message on others. Since you share your space with others, consider their rights and sensibilities too. They are potential customers.

Consider city or town planning goals and regulations when ordering a sign. Some types of signs are not permitted. Determine what the regulations are in your community before you discuss design with a sign designer. Most sign companies are well aware of the regulations in any given community and can guide you in selecting a sign that is not in violation of the law.

Source: U.S. Small Business Administration

PLAN YOUR ADVERTISING BUDGET

Summary

Deciding how much your advertising should cost, including how much should be invested in making sales grow and how that amount should be allocated, is completely up to you, the small business owner-manager.

Advertising costs are a completely controllable expense. Advertising budgets are the means of determining and controlling this expense and dividing it wisely among departments, lines, or services.

This publication describes various methods (percentage of sales or profits, units of sales, objective and task) of establishing an advertising budget and suggests ways of applying budget amounts to get the effect you want.

If you want to build sales, it is almost certain that you will need to advertise. How much should you spend? How should you allocate your advertising dollars? How can you be sure your advertising outlays aren't out of line? The advertising budget helps you determine how much you have to spend as well as how you are going to spend it.

What you would like to invest in advertising and what you can afford are seldom the same. Spending too much is obviously an extravagance, but spending too little can be just as bad in terms of lost sales and diminished visibility. Costs must be tied to results. You must be prepared to evaluate your goals and assess your capabilities - a budget will help you do precisely this.

Your budget will help you choose and assess the amount of advertising and its timing. It will also serve as the background for next year's plan.

Methods of Establishing a Budget

Each of the various ways in which to establish an advertising budget has its problems as well as its benefits. No method is perfect for all types of businesses, nor is any combination of methods.

Here, concepts from several traditional methods of budgeting have been combined into three basic methods: percentage of sales or profits, unit of sales, and objective and task. You will need to use judgement and caution in choosing your method or methods.

Percentage of Sales or Profits

The most widely used method of establishing an advertising budget is to base it on a percentage of sales. Advertising is as much a business expense as, say, the cost of labour and, thus, should be related to the quantity of goods sold.

The percentage-of-sales method avoids some of the problems that result from using profits as a base. For instance, if profits in a period are low, it might not be the fault of sales or advertising. But if you stick with the same percentage figure, you will automatically reduce your advertising allotment. There is no way around it: two percent of $10,000 is less than two percent of $15,000.

Such a cut in the advertising budget, if profits are down for other reasons, may very well lead to further losses in sales and profits. This, in turn, will lead to further reductions in advertising investment, and so on.

In the short run, a small business owner might make small additions to profit by cutting advertising expenses, but such a policy could lead to a long term deterioration of the bottom line. By using the percentage-of-sales method, you keep your advertising in a consistent relation to your sales volume, which is what your advertising should be primarily affecting. Gross margin, especially over the long run, should also show an increase if your advertising outlays are being properly applied.

- *What percentage?*

  You can guide your choice of a percentage-of-sales figure by finding out what other businesses in your industry are doing. These percentages are fairly consistent within a given sector of business.

  It is fairly easy to figure out the ratio of advertising expense to sales in your industry. You can check out trade magazines and associations. You can also find these ratios through web links such as Industry Canada's online information source *Strategis* at: http://www.strategis.ic.gc.ca or in reports published by financial institutions such as Dun & Bradstreet (http://www.dnb.ca).

  Knowing the advertising to sales ratio for your industry will help you spend proportionately to your competitors. You must be careful however, not to base your entire budget on these reads. Every situation is slightly different and industry averages are only averages. Your particular situation may require you to advertise more or less than your competition. You may feel that at this point in your business life cycle, it is important to spend more than average on advertising. The decision is ultimately yours. After all, growth requires investment.

  No business owner should let any method bind him or her. It may be helpful for you to use the percentage-of-sales method because it is quick and easy. Not only is it a sound method for stable markets, but it may also keep your advertising budget from getting way out of proportion. Note: If you are looking to expand your market share, you will probably have to use a larger percentage of sales towards advertising than is shown in the industry average.

- *What sales?*

  Your budget can be determined as a percentage of past sales, of estimated future sales, or as a combination of the two:

  - Past sales.

    Your base can be last year's sales or an average of a number of years in the immediate past. Consider, though, that changes in economic conditions may cause your figures to be too high or too low.

  - Estimated future sales.

    You can calculate your advertising budget as a percentage of your anticipated sales for next year. The most common pitfall of this method is an optimistic assumption that your business will continue to grow. You must always keep general business trends in mind, especially if there is the chance of a slump. Remember to assess the directions in both the industry and your own operation.

- Past sales and estimated future sales.

  The middle ground between an often conservative appraisal based on last year's sales and an often overly optimistic assessment of next year's, is to combine both. This method is generally more realistic during periods of changing economic conditions. It allows you to analyze trends and results thoroughly as well as predict future sales a little more accurately.

Unit of Sales

In the unit-of-sale method, you set aside a fixed sum for each unit of product to be sold, based on your experience and trade knowledge of how much advertising it takes to sell each unit. For example, if it takes two cent's worth of advertising to sell a case of canned vegetables and you want to move 100,000 cases, you will have to spend $2,000 on advertising. If it costs X dollars to sell a refrigerator, you will have to budget 1,000 times X to sell one thousand refrigerators. Using this method, you are simply basing your budget on units of sale rather than dollar amounts of sale.

Some people consider this method just a variation of percentage-of-sales. However, since unit-of-sales is based on what experience tells rather than an overall percentage of your gross sales estimate, it is probably a more accurate estimate.

The unit-of-sales method is particularly useful in fields where the amount of product available is limited by outside factors, such as the weather's effect on crops. If that's the situation for your business, you must first estimate how many units or cases will be available to you. Then, you advertise only as much as experience tells you it takes to sell them. Thus, if you have a pretty good idea ahead of time how many units will be available, you should have minimal waste in your advertising costs.

This method is also suited for specialty goods, such as washing machines and automobiles; however, it's difficult to apply when you have many different kinds of products to advertise and must divide your advertising among these products. The unit-of-sales method is not very useful in sporadic or irregular markets or for style merchandise.

Objective and Task

The most difficult (and least used) method for determining an advertising budget is the objective-and-task approach. Though it is more complex than other methods, this approach is the most accurate and therefore best method for determining your budget.

- It relates the appropriation of the marketing task to be accomplished.
- It relates the advertising appropriation under usual conditions and in the long run to the volume of sales, so that profits and reserves will not be drained.

To establish your budget using this method, you need a co-ordinated marketing program with specific objectives based on a thorough survey of your markets and their potential.

While the percentage-of-sales or profits method determines how much you'll spend without much consideration, the task method establishes what you must do in order to meet your objectives. Only then do you calculate its cost.

You should set specific objectives: not just "Increase sales", but, for example, "Sell 25% more of product X or service Y by attracting the business of teenagers". Then, determine what media best reaches your target market and estimate how much it will cost to run the number and types of advertisements you think it'll take to get that sales increase. You repeat this process for each of your objectives. When you total these costs, you have your projected budget.

Of course, you may find that you can't afford to advertise as you'd like to. It's a good idea, therefore, to rank your objectives. As with the other methods, be prepared to change your plan to reflect reality and to fit the resources you have available.

How to Allocate Your Budget

Once you have determined your advertising budget, you must decide how you will allocate your advertising dollars.

First, you will have to decide if you'll do any institutional advertising or only promotional advertising.

After you have set aside an amount on which to build your image (if that is what your plan is for the year), you can allocate your promotional advertising in a number of ways. Among the most common breakdowns are:

- Departmental Budgets

  The most common method of allocating advertising dollars is 'percent of sales'. The departments or product categories with the greatest sales volume may receive the biggest share of the budget.

  In a small business or when the merchandise range is limited, the same percentage can be used throughout. Otherwise, a good rule is to use the average industry figure for each product.

  By breaking down the budget by departments or products, the goods that require more promotion to stimulate sales can get the required advertising dollars. Your budget can be further divided into individual merchandise lines.

- Total Budget

  Your total budget may be the result of integrated departmental or product budgets. If your business has set an upper limit for advertising expense percentage, then your departmental budgets, which are based on different percentages of sales in each area, might be pared down.

  In smaller businesses, the total budget may be the only one established. It too should be divided into merchandise classifications for scheduling.

- Calendar Periods

  Most executives of small businesses usually plan their advertising on a monthly or weekly basis. Your budget, even if it is for a longer planning period, should also be calculated for these shorter periods. It will give you better control.

  The percentage-of-sales method is also useful here to determine how much money to allocate by time periods. The standard practice is to match sales with advertising dollars. Thus, if February accounts for 5% of your sales, you might give it 5% of your budget.

Sometimes you might want to adjust advertising allocations downward in some of your heavier sales months, so you can boost the budget of some of your poorer periods. But this should be done only if you have reason (as when you competition's sales trends differ markedly from yours) to believe that a change in your advertising timing could improve slow sales.

- Media

  The amount of advertising that you place in each advertising medium (i.e. direct mail, newspapers, radio, television, Internet, etc.) should be determined by past experience, industry practice, and ideas from media specialists. Normally, it is wise to use the same sort of media your competitors use because that is most likely where your potential customers look and listen.

- Sales Areas

  You can either spend your advertising dollars in areas where your customers are already frequent, or you can use them to stimulate new sales areas. Whatever you choose, remember that it is usually more costly to develop new markets than it is to maintain the ones that are already established.

A Flexible Budget

Any combination of these methods may be employed in the formation and allocation of your advertising budget. Based on your advertising needs, you may find that you need all or only one of these methods to meet your advertising objectives. Whatever the case, make sure that your budget is flexible. It must be easy to adjust when there are changes in the market.

The duration of your planning and budgeting period depends on the nature of your business. If you can use short budgeting periods, you will find that your advertising can be more flexible and that you can change tactics to meet immediate trends.

To ensure advertising flexibility, you should have a contingency fund to deal with special circumstances, such as the introduction of a new product, specials available in local media, or unexpected competitive situations.

Beware of your competitors' activities at all times. Don't blindly copy your competitors, but analyze how their actions may affect your business - and be prepared to act.

Getting Started

Your first budget will be the most difficult to develop, but it will be worth the effort since it will help you analyze the results of your advertising. By your next business year, you will have a more factual basis for budgeting than you did before. Your plans will become more effective with each budget you develop.

DO YOU KNOW THE RESULTS OF YOUR ADVERTISING

Summary

Because your budget is limited, you, as the owner-manager of a small retail or service firm, must see that your advertising does the job you want it to. Measuring the results on a continuing basis can help you see that your ads keep your business' name before the public and contribute to increasing sales.

Planning is important. Before you can evaluate results, you must decide what purpose your ads should accomplish. This publication gives pointers on planning ads and discusses several ways you can compare advertising and sales.

Advertising is necessary today. Whether you have a small business or a large one, you must tell people who you are, what you sell, and where you are located. You must tell them when they wish to hear or read about such things. So you must place ads in newspaper, on radio, television, and outdoor posters, or send out direct mail pieces.

As a small business owner-manager, you know the money that you spend on advertising must return enough sales and profits in added business to justify the cost of the advertising. In small firms, neither time nor money is sufficient to engage in complicated ad measurement methods. Even so, you can use certain rule-of-thumb devices to get a good idea about the results of your advertising.

What Results Do You Expect?

Essentially, measuring results means comparing sales with advertising. In order to do this, you have to start early in the process -- before you even make up the advertisement. The question to answer is: What do you expect the advertising to do for your store?

- Immediate response advertising is designed to cause the potential customer to buy a particular product from you within a short time (i.e. today, tomorrow, the weekend, or next week). An example of such decision-triggering ads is one that promotes regular price merchandise with immediate appeal. Other examples are ads that use price appeals in combination with clearance sale, special purchases, seasonal items, (for example, white sales, Easter sales, etc.) and 'family of items' purchases.

  Advertising results should be checked daily. Since most advertising has some carry-over effect, it is also a good idea to check the results from advertising runs two weeks after, three weeks after and so on to ensure that no opportunity for using profit-making messages is lost.

- Attitude advertising is the type you use to keep your store's name and merchandise before the public. Some people think of this type as 'image building' advertising. With it, you remind people week after week about your regular merchandise or services or tell them about new or special services or policies. Such advertising should create in the minds of your customers the attitude you want them to have about your store, its merchandise, its services, and its policies.

Attitude (or image-building) advertising is harder to measure than immediate response advertising because you cannot always attribute a specific sale to it. Its sales are usually created long after the ad has appeared. However, you should keep in mind that there is a lead-time relationship in such advertising. For example, an ad or a series of ads that announces you have the exclusive franchise for a particular brand starts to pay off when you begin to get customers who want that brand only and ask no questions about competing brands.

To some degree, all advertising should be attitude advertising. It is your reputation builder.

In short, 'attitude advertising' messages linger in the minds of those who have had some contact with the ad. Sooner or later, these messages may be acted upon by people when they decide to make a certain purchase.

Because the purpose of attitude advertising is spread out over an extended period of time, the measurement of results can be more leisurely. Some attitude advertising such as a series of ads about the brands that the store carries can be measured at the end of one month from the appearance of the ads or at the end of a campaign.

Planning For Results

Whether you are trying to measure immediate response or attitude advertising, your success will depend on how well the ads have been planned. The trick is to work out points against which you can check after customers have seen or heard the advertisement.

Certain things are basic to planning advertisements whose results can be measured. First of all, advertise products or services that have merit in themselves. Unless a product or service is good, few customers will make repeat purchases no matter how much advertising the store does.

Many people will not make an initial purchase of a shoddy item because of doubt or unfavourable word-of-mouth publicity. The ad that successfully sells inferior merchandise usually loses customers in the long run.

Small marketers, as a rule, should treat their messages seriously. Humour is risky as well as difficult to write. Be on the safe side and tell people the facts about your merchandise and services.

Another basic element in planning advertisements is to know exactly what you wish a particular ad to accomplish. In an immediate response ad, you want customers to come in and buy a certain item or items in the next several days. In attitude advertising, you decide what attitude you are trying to create and plan each individual ad to that end.

- Plan the ad around one idea. Each ad should have a single message. If the message needs reinforcing with other ideas, keep them in the background. If you have several important things to say, use a different ad for each one and run the ads on succeeding days or weeks.

  The pointers which follow are designed to help you plan ads so they will make your store stand out consistently when people read or hear about it.

- Identify your store fully and clearly. Make sure your radio and television ads identify your sponsorship as fully and frequently as possible without interfering with the message. Logotypes and signatures in visual ads should be clean-lined, uncluttered, and prominently displayed. Give your address and telephone number. It's possible to use a musical or sound effect signature identified with your store to create a 'logo' on radio too.

- Pick illustrations which are similar in character. Graphics - that is, drawings, photos, borders, and layouts - that are similar in character help people to recognize your advertising immediately.

- Pick one audio format or type face and stick to it. Using the same type face or the same audio format for radio or television helps people to recognize your ads quickly. Using the same format or kind of type and illustrations also allows you to concentrate on the message when checking ad response changes.

- Make copy easy to understand. Printed messages should be broken up with white space to allow the reader to see the lines quickly. Broadcast messages should be written conversationally. Remember, these messages are human beings talking to human beings.

  Tell your listeners how what you are advertising will help them. Consumers buy benefits, not products.

  Get the main message in the first sentence, if you can. Sentences should be short. Be Direct. Go straight to the point. Get the audiences' attention in the first five seconds of the radio or television commercial.

  Try out your script on somebody else or read it into a tape recorder. When you play the tape back, you'll easily spot phrases that are hard to understand (or believe). Your ears are better than your eyes for judging broadcast ads.

- Use coupons for direct mail advertising response as often as possible. Coupons give an immediate sales check. Key the coupon in some manner so that you can measure the response easily. In your radio ads, you can have listeners create their own 'coupons'. One fast food chain asked listeners to hand draw a coupon and bring it in for a free hamburger.

Tests For Immediate Response Ads

In weighing the results of your immediate response advertisements the following devices should be helpful:

- Coupons brought in. Usually these coupons represent sales of the product. When the coupons represent requests of additional information or contact with a salesperson, were enough leads obtained to pay for the ad? If the coupon is dated, you can determine the number of returns for the first, second, and third weeks.

- Requests by phone or letter referring to the ad. A 'hidden offer' can cause people to call or write. For example, in the middle of an ad, include a statement that on request the product or additional information will be supplied. Results should be checked over a one week through six months or 12 months period because this type ad may have considerable carry-over effect.

- Testing ads. Prepare two ads (different in some way you would like to test or set for different stations or broadcast times) and run them on the same day. Identify the ads -- in the message or with a coded coupon -- so you can tell them apart. Ask customers to bring in the coupon or to use a special phrase. Run two broadcast ads at different times or on different stations on the same day with different 'discount phrases'. Ask a newspaper to give you a 'split run' -- that is to print ad 'A' in part of its press run and ad 'B' in the rest of the run. Count the responses to each ad.

- Sales made of a particular item. If the ad is on a bargain or limited-time offer, you can consider that sales at the end of one week, two weeks, three weeks, and four weeks came from the ad. You may need to judge how many sales came from in-store display and personal selling.

- Check Store Traffic. An important function of advertising is to build store traffic which results in purchases of items that are not advertised. Pilot studies show, for example, that many customers who are brought to the store by an ad for a blouse also bought a handbag.

You may be able to use a local college or high school distributive education class to check store traffic. Class members could interview customers as they leave the store to determine which advertised items they bought, what other items they bought and what they shopped for but did not buy.

Testing Attitude Advertising

When advertising is spread out over a selling season or several seasons, part of the measurement job is keeping records. Your aim is comparing records of ads and sales for extended time.

An easy way to set up a file is by marking the date of the run on tear sheets of newspaper ads (many radio stations now provide 'radio tear sheets'), log reports of radio and television ads, and copies of direct mail ads. The file may be broken down into monthly, quarterly, or semi-annual blocks. By recording the sales of the advertised items on each ad or log, you can make comparisons.

- In attitude (or image-building) advertising, the individual ads are building blocks, so to speak, which make up your advertising over a selling season. The problem is trying to measure each ad and the effects of all of the ads taken together.

  One approach is making your comparisons on a weekly basis. If you run an ad, for example, each week, at the end of the first week after the ad appears or is broadcast, compare that week's sales with sales for the same week a year ago. At the end of the second week, compare your sales with those of the end of the first week as well as year-ago figures.

  At the end of the third week, one month, three months, six months and 12 months from the running of the ad, repeat the process even though additional ads may have appeared or been aired in the meantime. For each of these ads, you will also make the same type of comparisons. You will, of course, be measuring the "momentum" of all of your ads as well as the results of a single ad.

  After a time, you probably will be able to estimate how much of the results are due to the individual ad and how much to the momentum of all your advertising. You may then make changes in specific details of the ad to increase response.

  When comparing sales increases over some preceding period, allowances must be made for situations that are not normal. For example, your experience may be that rain on the day an ad appears cuts its pulling power by 50 percent. Similarly, advertising response will be affected by the fact that your customers work in a factory that is out on strike.

Some of the techniques which you can use for keeping on top of and improving attitude advertising follow.

- Repeat an ad. If response to an ad is good, run it -- without change -- two or three times and check the responses of each appearance or broadcast against previous ones.

  Keep repeating the process. Much advertising loses effectiveness because the advertiser doesn't keep reminding people. Repetition helps increase knowledge of, and interest in, the product. You can soon estimate how often you should repeat each ad -- exactly or with minor changes.

- Analyze all ads in relation to response. Divide ads into at least two classes: high-response ads and low-response ads, then look for differences between the two classes.

  The time the ad was broadcast or run may be responsible for a particular response level. Other factors, however, may be just as influential as time or even more so, though in radio time is often crucial.

  Consider the message and how well it was expressed. Did the copy stick to the theme or did it wander? If you used slogans, did they help make the point? For print, consider the effects of illustrations, type size, colour, and ad location. In broadcast, consider whether or not the voice of the person doing the ad or music used may have had an effect.

  Emphasis on brand names should also be checked. Price figures should be analyzed. If price lines are involved either in the ad or in the merchandise line of which the advertised product is a part, you should consider them also.

  Check the effect of the length of broadcast ads. Did you get the best results with 10-second, 30-second, or 60-second announcements?

- Try to see a pattern of dominance. Your analysis of high-and-low response ads, may show that certain details make the difference between a high or low response. Try to find the combinations that work best for your firm and merchandise.

- Note changes occurring over time. A small retailer should never take a winning combination for granted. There is no single formula that will insure high response ads every time. Advertising changes. Therefore, you should watch the ads of others to see what changes are occurring. Continue to analyze your own ads, make small changes occasionally, and note any variations in response.

  Listen to what people say about your ads. In doing so, try to discover the mental framework within which any comment about your ad was made. Then try to find points which reinforce believability and a feeling that your product fulfils some wish or need.

  However, you should not be misled by what people say. An ad can cause a great deal of comment and bring in practically no sales. An ad may be so beautiful or clever that as far as the customer is concerned the sales message is lost.

When You Use Several Media

When your ads appear simultaneously in different media -- such as the newspaper, on radio and television, in direct mail pieces, and as handbills -- you should try to evaluate the relative effectiveness of each. You can check one printed medium against the other by using companion (the same or almost identical) ads in the newspaper, direct mail, and handbills.

You can make the job of analysing and comparing results from among the media easier by varying your copy -- the message. Your ad copy, thus, becomes the means of identifying your ad response.

You can check broadcast media -- radio and television -- by slanting your message. Suppose, for example, that you advertise an item at 20 percent reduction. Your radio or television ad might say something like this: "Come in and tell us you want this product at 20 percent off."

You can compare these responses with results from your '20 percent off' newspaper ad. Require the customer to bring in the newspaper ad -- or a coupon from it.

Some of the ways to vary the copy are: a combination of the brand name with a word or some words indicating the product type; tone of voice; speed of delivery; picture variations; size variations; and colour variations. Check your printed ads against each other as well as against your radio and television ads.

Be careful that the copy variation is not so great that a different impression is received from each medium. Here you would, in effect, have two different ads.

Short-term And Long-term Effects Of Advertising

Even one ad, commercial, or highway poster can result in sales for one product and attention for your business. You should remember, however, that a series of ads that are related, will result in sales over a longer period of time than the campaign lasts. Your business name will become very much better known. Your expenditures for advertising therefore, should be scheduled over a period of three, six and 12 months. Avoid deciding to advertise this week and putting off the decision about when you will next advertise.

Where To Get Help

Most newspaper offices have at least one person who can help you plan the overall layout, design of your ad, provide illustrations for your ad, and make suggestions about the copy that will be contained in the ad. Radio stations will frequently help write copy and provide a music background for the commercial. Television stations may produce your commercial, usually for a fee. Outdoor advertising agencies may paint or design a poster or bulletin for you, again at a price. Specialty advertising firms may recommend gift items, some at very low costs.

Many small towns, as well as all cities, will have one or more advertising agencies that are organized to create and place retail advertising for small advertisers.

These agencies will probably charge you a specific fee, as local media may not pay an ad agency fee.

If a college, university, or other school is near you, you might find that students will be happy to create your ads and even plan your campaign.

Government Regulations

Advertising is now being more closely regulated by the Federal, Provincial and local governments, than ever before. You should make it a practice to search for news items about such regulations that apply to your business.

Consumer Groups

Most cities and towns now have organizations that are entirely or in part concerned with the consumer movement. Know about such groups in your community and if possible, work with them in relation to the works, illustrations, and even forms of your advertising. The opinions of the members of these groups can determine the success or failure of both your advertising and your business.

Source: U.S. Small Business Administration

WAYS TO PROMOTE YOUR PRODUCT OR SERVICE

The marketing budget deserves careful consideration because it not only serves to create market impressions; it is expected to generate revenues. Understanding the kinds of impacts that can be expected from the various print and electronic media will help to manage this element of business expense.

An important precaution is to understand that each market segment may react differently to the way that a promotional message is presented. With all due respect for human nature, an exciting, aggressive, or even humorous message may be perceived as offensive or insensitive even though it may be grammatically and politically correct.

The Print and Graphic Arts Media

- Business cards and stationery are effective, inexpensive, and professional promotional tools, but use of these items should be restricted to personal contacts. Rubber stamps or staples are for impersonal, routine tasks and should not be used in any way with this media. Advertising specialties such as pens, key rings, and calendars acknowledge goodwill in the form of a small gift, but these convey more image than information.
- Many retailers prefer local newspapers because it provides maximum flexibility in terms of budget, timing, coupon feedback, and product and price mix. The perception rate is high because the reader can get more than one impact from the same message.
- Brochures, posters, and packaging are cost effective ways to provide a combination of moving and static visual impact with the most versatile applications. Brochures inform, posters inspire, and packaging validates the customer's buying decision.
- Catalogues used by the mass merchandisers are expensive and designed for specific, targeted markets. The high quality graphics makes the catalogue a reference product with portable but inflexible information. The catalogue style of advertising is more frequently used in promotional sales flyers.
- Magazines are more expensive than newspaper or radio, but have the advantage of a more specific audience of subscribers (i.e. teens, women, crafters, etc.) Manufacturers tend to use this media to reinforce their brand names and trademarks in the market.
- Yellow pages provide an interactive link to the primary electronic media; the telephone and the fax. The toll free 1-800 service invites extended markets, and implies modern services.
- Increased use of cellular telecommunications is expected to influence a new wave of creative marketing tactics.

The Electronic Media

- Radio is cost effective and the audiences are routinely loyal to a station's program format. The lack of visual impact makes the message more personal and conversational. Promotional events often build on the interactive links with the audience. Radio messages tend to develop a personality and convey a friendly, local relationship.

- Television captures more audience time than any other medium and it has the powerful advantages of visual impact. It is generally believed that as much as 90 percent of a person's total perception is the result of images conveyed to the brain in one way or another.

  The TV commercial is targeted at a home audience in a relaxed and suggestive atmosphere, by using short, repetitive, and high impact messages. The TV remote control has changed viewing habits such that commercial spots are now formatted in clusters of ten and fifteen second clips.

- There are an increasing number of online directories available with which you can list your business. Not only are many of these directories available at reasonable rates, they allow customers from all parts of the province, country and world easy access to your business. Some of these online directories include:

  555-1212.com Inc. - an online telephone and Web directory service that includes information such as area codes, white pages, yellow pages, reverse look-up, local websites, international company listings, and email addresses. For more information on how to register your business with 555-1212.com Inc. check out their Web site at: http://555-1212.com or contact them at:

  555-1212 Inc.
  Citicorp Center
  #1 Sansome Street, 39th Flr.
  San Francisco, CA 94104
  Tel: (415) 288-2440
  Email: advertising@555-1212.com

  Yellow.ca (Canada) - is Canada's online directory designed to promote business in Canada. Recognizing the 'commercial potential' that the World Wide Web offers, Yellow.ca has created a cost-effective registration that allows every Canadian business an opportunity to market their company on the Internet. You can contact Yellow.ca at: http://www.yellow.ca

  Yellow Pages (Saskatchewan) - this directory offers residential, business, and government listings. The Saskatchewan Yellow Pages online information service allows your business to target customers in your immediate community. For more information on how to register your company for free, visit their site at: http://www.saskyellowpages.com.

The Personal Efforts

- 'Networking' and 'word of mouth' referrals are an effective way to reduce out of pocket costs and cultivate a clientele. The valued opinion of influential customers is the most important and cost effective promotion that a business can develop. Markets never buy anything; only customers buy products and services.

- Community involvement expands the personal network of contacts and marketing intelligence; however, this should be the by-product of genuine interest in the community.

- Special promotions and events can be made to work in concert with any one or a combination of the above methods. This can be in the form of door prizes, Welcome Wagon gifts, free passes, free coffee, or even honoring a competitor's coupons.

The Market/Media Mix

Since most media have a range of light, medium, and heavy users, the challenge for business is to anticipate the customer's needs in terms of typical behavior patterns in human nature. Each media has a variety of strengths and weaknesses to consider. In some market situations, a dollar spent on the print media can out pull a dollar spent in the electronic media and vice versa.

Concurrent planning must include methods to compare results with costs and competition. Even the smallest advertising budget will benefit with a marketing plan because it remains a vital part of the BUSINESS PLAN.

ADVERTISING DO'S AND DON'TS

- Do fully and clearly disclose all material information in the advertisement.
- Do avoid using terms or phrases in an advertisement that are not meaningful and clear to the ordinary person.
- Do avoid fine print disclaimers. They often fail to change the general impression conveyed by an advertisement. If you do use them, make sure the overall impression created by the ad and the disclaimer is not misleading.
- Do ensure that your sales force is familiar with the "Advertising Do's and Don'ts" as an advertiser may be held responsible for representations made by their employees.
- Do use the Director's Program of Compliance - contact the Competition Bureau, Industry Canada for details.
- Do ensure that you have reasonable quantities of a product advertised at a bargain price.

- Don't use the word 'sale' or 'special' unless a significant price reduction has occurred.
- Don't increase the price of the product to cover the cost of a 'free' product or service.
- Don't make a performance claim before you can substantiate it, even if you think it is accurate.
- Don't use illustrations that are different from the description of the product actually being sold.
- Don't overuse disclaimers.
- Don't run a 'sale' for a long period or repeat it every week.
- Don't use 'regular price' in an advertisement unless it is the price at which the product is usually sold.
- Don't confuse regular price with manufacturer's suggested list price, they are often not the same.
- Don't forget that no one needs to be actually misled in order to convince a court that an advertisement is misleading.
- Don't forget that the 'Public' includes the ignorant and credulous as well as the knowledgeable and sophisticated.
- Don't forget that ignorance is not a valid defence.
- Don't sell a product above your advertised price.

Source: Competition Bureau, Industry Canada, http://strategis.ic.gc.ca/SSG/ct01072e.html

For more information, please contact the Competition Bureau, Industry Canada.
Phone: 1-800-348-5358 Website: http://competition.ic.gc.ca

MAKING PRESENTATIONS

It is a common occurrence to have to make a presentation to a group of people regarding your products or services. For a lot of people, this is not a comfortable task to take on. The following tips are intended to aid you in making an effective presentation.

The Audience

The fact that you have an audience is evidence that they are interested in obtaining as much information as possible. With that in mind, you will more than likely find your audience quite receptive to your presentation.

The audience is a collective personality and as such, it differs substantially from an individual personality. For example:

- audiences are always sympathetic, but;
- audiences never accept excuses, and;
- audiences never accept a sales pitch.

It is important to remember that no matter how apprehensive you may feel, the entire audience is pulling for you to succeed because they will suffer collective embarrassment if you should fail. This is your psychological advantage.

Audiences do not forgive anything, so don't apologize for anything, especially in your opening remarks. Poor quality slides, a last minute substitute, a malfunction of audio visual equipment, weather or problems with air travel are just worn out excuses.

So what if you are not an orator; technical information is best conveyed in an ordinary conversational voice amplified by a microphone. Simply organize your presentation in a logical manner and integrate it with your visual aids, then rehearse your presentation before a critical audience in your own environment until your presentation is second to none.

Nothing is ever sold to the audience because they will mentally reject the sales presentation. However, talking with individuals at a coffee break creates the ideal climate for follow up and sales.

Questions From The Floor

Questions that seek to clarify information in your presentation should be allowed to interrupt and be answered immediately and as quickly as possible.

Questions asked to help solve a certain problem should be referred either to a question and answer period or to a private discussion at a later time.

It is also a good idea to repeat questions from the floor to make sure that both the question and your answer are heard by the whole audience.

Visual Aids

The advantage of a slide or an overhead projector presentation (vs. a movie or video) is that slides give you the time you require to explain the necessary details. The disadvantage is that slides and overheads are static and you want to give a dynamic presentation, which means you must keep the visual element of your presentation lively and interesting. Many experts believe that no image should be on the screen more than 30 seconds because after 30 seconds interest wanes and after 60 seconds boredom turns to drowsiness.

Generally, only the lights at the front of the room or the immediate area of your projection screen should be extinguished. Lighting in the back of the room can usually remain on, or dimmed slightly for contrast.

We're All In The Dark

Total darkness is also conducive to sleep - especially after a heavy luncheon. There could be some point in a lengthy slide presentation where elaboration, pause, questions, or discussion provides an opportunity to turn up the lights to shift more attention to what is said, rather than what is seen. Nothing is so deadly to a presentation as a speaker talking for five or ten minutes in a darkened room with a static slide that has no bearing on the discussion.

Plenty of good quality slides create audience interest by showing panoramic shots followed by close-in details.

Tabular And Printed Matter

A good rule of thumb is to hold a slide of printed matter at arms length and try to read it. If you can't make out the characters, the projection will not be much better for your audience. Graphs are more interesting and effective if done in a spectrum of colour. Always strive to put your most important curves or bars in **red** because it is the most exciting colour. Above all, remove the extraneous detail such as grid lines from a graph before redrawing it.

All presentation text should have a minimum **two inch font** on either the flip chart or on the screen. If you can't read the image from the back of the room, it's likely because there is too much text on the screen and because the font is too small.

Always speak face to face with your audience and never talk while facing your screen or flip chart.

The Show Must Go On

Even with the best preparation, sometimes equipment will fail and contingency plans are needed. Most often, audio visual equipment will be provided to your advance specifications, but you should be prepared to use flip charts or other visual aids without blame, fuss or apology at any given moment. Try to keep the momentum and interest focused away from any problems at hand and focused on the presentation. This not only shows respect for other people's time, it is the hallmark of a professional.

Perfect Is Not Possible

Accepting an invitation for a public speaking engagement is a significant responsibility, and the guidelines in this article are intended to help ease your apprehension in this regard. It is often easier to decline an opportunity or get out of a speaking engagement than it is to create an opportunity.

Style is the by-product of experience and practice. By concentrating on experience and practice, everything else will come naturally; including style, enjoyment, and rewards.

TRADE SHOWS

Trade shows can be divided into two main categories. The first category includes the shows you will attend as an exhibitor to promote your products and services. The other category includes the shows that are trade specific and provide you the opportunity to purchase items for resale or use in your business.

Tips When Exhibiting

- Start selling in the target area before you get to the show.
- Set sales goals - keep them specific and write them down.
- Know in advance the layout, activities, and schedule of the show.
- Arrive early.
- Assess show security.
- Have a game plan:
    - Key elements of a presentation:
        a) Welcome;
        b) Qualify your prospects;
        c) Inform, Demonstrate, Sell;
        d) Close;
        e) Thanks.
    - Dress, manner, and style will impact on your success.
    - Be a good listener.
    - Be familiar with displayed products/services you are promoting.
    - Determine the approach of handling give-aways /literature.
- Follow-up with prospects and fulfil all requests you're committed to.
- Evaluation - this will assist you in planning for your next show.

Buying Tips

- Research demographics of trading area.
- Know your customers' needs/wants prior to show.
- Establish a budget based on pre-determined sales categories.
- If possible, obtain an exhibitors list prior to the show to schedule your meetings.

NOTE: Often associations provide space for displays at their annual conventions. This can be an excellent outlet to introduce your new product(s) and service(s).

The following are trade show publications that list shows throughout the world.

- **Saskatchewan Events Guide - Regional Trade Shows and Events**
- **Shows and Exhibitions - Canadian Trade Shows**
- **Business Events Guide - National and International Trade Shows**
- **International Trade Fairs and Conference Directory - International Trade Fairs**

* **May be available through local business information or library resources.**

The following are some popular trade show Web sites, which you may find useful:

- **The Trade Group**: http://www.tradegroup.com/
- **TS Central, The Event Company**: http://www.tscentral.com/
- **tsnn.com, The Ultimate Trade Show Resource**: http://www2.tsnn.com/
- **SourceCan**: https://www.sourcecan.com/E/sb1410.cfm

INVITE YOUR TRADE SHOW PROSPECTS

If you arrange a reception and don't invite anyone, don't be surprised if no one shows up. Many companies participating in trade shows neglect to invite their clients or their sales prospects.

Most show management groups develop some form of publicity or promotional package. Some do an excellent job, some are only adequate.

If you want to meet your stated objectives and succeed in your trade show efforts, let people know that you are participating in the show. When those turnstiles start to click on opening morning, make sure the visitors are aware of your presence at the show - and encourage them to visit your exhibit.

An effective promotional campaign does not have to be costly. In fact, promotion of your participation in most trade shows can be quite inexpensive. (Consumer shows can be more costly to promote.)

Here are some ideas to help you:

- Prepare a press release announcing your participation and distribute it to the various trade journals.
- Should you have a new product, feature it in the release.
- Most trade magazines will have a **Show Special** and will publish newsworthy material.
- News releases of general interest should be distributed to newspaper, consumer magazines, radio, and television.
- If you advertise in trade journals, include a tag line "Be sure to visit us at booth No.____!"
- Sales people should be provided with invitation passes. They should distribute them to clients and prospects at least two months prior to the show.
- Put reminders on invoices and statements.
- Produce a direct mail folder for present and potential customers.
- Have your advertising agency prepare a special show advertisement to appear in related publications.
- A new product of a high news value should be announced at a press conference prior to the show or during the show.

You may decide to produce special show literature or other collateral material to help you achieve your objectives.

When participating in a consumer show, it would be best to discuss your promotional efforts with your advertising agency to gain greater public awareness of your products or services.

Source: Sales and Marketing Management in Canada; November, 1989.

LABELLING FACT SHEET

With a few exceptions, all packaged products sold to the public are required to carry the following information on the label:

- Basic information under The Consumer Packaging & Labelling Act
    - Common or generic name of product in English and French.
    - Net contents by weight, volume, count, or measure in metric units. Type size of declaration in direct relation to size of package.
    - Name and address of a responsible party - manufacturer, packager, or retailer.

In addition:

- Agricultural products under The Agricultural Products Standard Act and various Provincial Acts must state the established grade designation as applicable. (i.e.) eggs - CANADA A LARGE, etc.; Potatoes - CANADA NO. 1, CANADA NO. 2; Frozen French Fries - CANADA FANCY; canned peaches - CANADA FANCY; etc.,
- Foods with more than one ingredient under The Food and Drugs Act must declare:
    - A list of ingredients in descending order or by percentage in English and French.
    - A "Best Before Date" on products with a shelf life of ninety (90) days or less, except meats packaged at retail level, which must show the packaged date.
- Household chemicals under The Hazardous Products Act
    - Specified household chemicals must carry a warning in print and by symbols showing the nature and degree of hazard. Poisonous household chemicals must also specify the poisonous substance by name and first-aid treatment. Warning must be in English and French.
- *Textile articles under The Textile Labelling Act require a declaration of:
    - Fibre content by generic name and percentage in descending order of predominance.
    - Either the name and address of a responsible party or a CA____ number registered with Industry Canada (1-800-348-5358).

    * NOTE: CARE LABELLING AND CANADA STANDARD SIZING are not mandatory; however, if they are used, they must comply with the standard requirements.
- Obliteration of the required labelling information with price stickers or by any other means is contrary to the legislation and hides information of value to the consumer.
- Institutional Pack
    - Products packaged for sale to institutions or industry (including restaurants) are exempt from many of these labelling requirements. The required markings may appear on the packing cases but not on the individual package. When these packages are offered for sale to the general public, they are in violation of the Acts mentioned previously.

Some examples of such packs are:

- Disposable foam cups and paper plates
- Frozen fruits and vegetables (french fries)
- Frozen fruit pies, etc.
- Industrial solvents and cleaners

Products in violation are subject to SEIZURE. Repeated violations could result in PROSECUTION.

These are the primary labelling requirements of the Acts mentioned. For more detailed information on these Regulations and the exceptions, contact Industry Canada, Competition Bureau toll free at 1-800-348-5358 or visit the web site: http://strategis.gc.ca/SSG/cp01035e.html

Labels are the most cost effective way to apply the Universal Product Code (UPC) because of the production time saved.

For products sold only in Canada, contact:

- The Food and Consumer Products
  Manufacturers of Canada
  885 Don Mills Road, Suite 301
  Toronto, Ontario M3C 1V9
  Phone: 416-510-8024
  FAX: 416-510-8043
  Email: info@fcpmc.com
  http://www.fcpmc.com/

For products to be sold internationally, contact:

- Uniform Code Council Inc.
  7887 Washington Village Drive
  Suite 300
  Dayton, Ohio, U.S.A. 45459
  Phone: 937-435-3870
  FAX: 937-435-7317
  Email: info@uc-council.org
  http://www.uc-council.org

Any hazardous materials that will be shipped under regulation contact:

- International Compliance Centre
  Unit 7 - 205 Matheson Boulevard East
  Mississauga, ON L4Z 1X8
  Tel: 1-888-977-4834 or 905-890-7227
  Fax: (905) 890-7070
  http://www.thecompliancecenter.com

CAN YOU MAKE MONEY WITH YOUR IDEA OR INVENTION

Summary

Innovative ideas are essential to business progress. It is very difficult, however, for innovators to get the kind of financial and management support they need to realize their ideas.

This publication, aimed at idea people, inventors, and innovative owner-managers of small companies, describes the tests every idea must pass before it makes money.

You've Got an Idea? Great!

So, you've had an idea for an invention or an innovative way of doing something that will boost productivity, put more people to work, and make lots of money for you and anyone who backs you? As you've probably heard, you're the kind of person your country needs to compete in world markets and maintain its standard of living. You're the cutting edge of the future.

You are another of those individuals on whom progress has always depended. We all know that it hasn't been huge corporations that have come up with the inventions that have revolutionized life. As the discoverer of penicillin, Sir Alexander Flemming, said, "It is the lone worker who makes the first advance in a subject: The details may be worked out by a team, but the prime idea is due to the enterprise, thought and perception of an individual." Innovators like you are business' lifeblood.

Owner-managers who have started companies on new ideas know first hand about the innovation process. They also know that you can expect to hear . . .

You've Got an Idea? So What?

In the first place, the chances that you are the first to come up with a particular innovation are somewhere between slim and none. Secondly, even if you have come up with the better mouse trap, nobody - but nobody - is going to beat a path to your door. In fact, in the course of trying to peddle your Better Mouse Trap, you'll beat up plenty of shoe leather wearing paths to other people's doors. You'll stand a good chance of wearing out your patience and several dozen crying towels as well.

Why is it so hard to find backers for your brain children? One consultant put it: "Nobody wants unproven ideas. Nobody wants to be first. Everybody wants to be second." Why this fear of the new?

Well, new product failure rates are estimated conservatively to be between 50 and 80 percent. One survey of major companies with millions of dollars to spend on R & D, market research, and product advertising, and with well-established distribution systems found that of 58 internal proposals only 12 made it past initial screening. From these 12 only one successful new product emerged.

Another group set up to help innovators has found that of every 100 ideas submitted 85 have too many faults to bother with. They can be eliminated immediately. Of the remaining 15, maybe five will ever be produced. One of those might - only might - make money.

With odds like 99 to 1 against an idea being a monetary success, is it any surprise that your idea is greeted with a chorus of yawns? People - companies, investors, what have you - are basically conservative with their money. Ideas are risky.

Does that mean you should forget about your idea? Of course not. It merely means that now you're beginning to see what Edison meant, when he said, "Genius is one per cent inspiration and ninety-nine percent perspiration."

Again, those of you who own small firms started on innovations are well aware of the truth of Edison's words. You've been through the hard work.

Can You Exploit Your Idea?

Although coming up with what you think is a sure-fire idea is the biggest step, it's still only the first one. You've got the other thousand miles of the journey to success still ahead of you.

Many things remain to be done before you can expect to realize the first dollar from your invention or other innovation. You should be prepared for the unhappy discovery that the end of the line for your idea may turn up well before the point you needed to reach to make money from it.

At a bare minimum, your idea will have to pass the following tests:

- Is it original or has someone else already come up with it?
- Can someone produce and distribute it if it's an invention or other product, or use it if it's a marketing innovation, a new use for an existing product, or the like?
- Will it really make money? (Will someone buy it?)
- Can you protect your idea?

That seems to be a modest enough list, and it is. The problems arise from the dozens of underlying questions that must be answered before the major questions can be resolved. Here, for example, are 33 areas that each idea may be submitted through to determine if it has commercial merit:

Legality
Safety
Environmental Impact
Societal Impact
Potential Market
Product Life Cycle
Usage Learning
Product Visibility
Service
Durability
New Competition
Functional Feasibility
Production Feasibility
Stability of Demand
Consumer/User Compatibility
Marketing Research
Distribution

Development Status
Investment Costs
Trend of Demand
Product Line Potential
Need
Promotion
Appearance
Price
Protection
Payback Period
Profitability
Product Interdependence
Research and Development
Potential Sales
Existing Competition
Perceived Function

Now that is not a modest list. However, for the moment let's ignore the 33 and look at the four broad questions.

Is Your Idea Original?

Obviously, if somebody has already come up with and produced as good an item or a better one, it would be pointless for you to pursue a similar idea any further. You'd only be wasting your time and money.

There are lots of places to look to find out. If your idea is for a consumer product, check stores and catalogues. Check trade associations and trade publications in the field into which your invention or innovation fits. Visit trade shows relevant to your idea. Look in the business and popular press.

Don't be afraid to ask people in the field if they've ever heard of anything along the lines of your idea. In the pure idea stage it's not very likely that somebody will steal your idea - all the hard work still has to be done. Besides, you can ask general sorts of questions and keep the details of your idea to yourself if you're really anxious that your idea will be pirated. Patent rights to an idea in major foreign countries will be jeopardized by uncontrolled disclosure prior to filing a patent application in the United States.

Obviously, if what you've come up with is an invention or an idea that can be put into patentable form, you'll eventually have to make a patent search. You could do that in this early stage, but it's probably a better idea to hold off until you've taken a look at your idea in the light of the next two questions.

How Will The Invention Be Produced and Distributed?

The first thought many innovators have is to take their ideas to a big national company. Provide the dazzling idea, they think, and let the giant work out the details. After all, the national company has the money, the production capability, and the marketing know-how to make this sure-fire profit maker go.

Unfortunately, the big companies are almost never interested in ideas from outsiders. Whether that's because the outside technology is 'a risk, a threat', or simply because large corporations need potential sales of an item to be in the tens of millions of dollars, doesn't matter. The cold fact is that selling a big firm on your idea is in the 100,000 to 1 shot range.

On the other end of the scale, you may be able to produce some items yourself, working out of your home and selling by mail order. This method can be a good way to get started, but after a while you may find yourself getting tired of having 200,000 better mouse traps stashed in your bedroom.

To be sure, if you can start (or already have) your own company, you will be better off. It's easier to sell a company than a patent, even if the company is losing money.

Many potential buyers understand a company much better than they understand the technology of an invention. Business people usually look at the profit-and-loss possibilities differently from the way an innovator does.

Many of these business people follow what one innovator has called "the 'Anyhow' theory of economics": We have a plant anyhow. We have a sales force anyhow. We advertise anyhow. We're smarter anyhow. Such business people also know that by the time they purchase a company most of the bugs are out of the technology and customers exist.

Between the extremes of starting your own company and having a big business buy you out is taking your idea to small and medium-sized businesses. Many smaller firms are interested in producing quantities that do not interest large companies. It is true that smaller firms may lack the marketing and distribution expertise characteristic of larger firms, however, at this point it is important that you use the smaller firms to get your foot in the door.

Will Your Idea Make Money?

This is the question that worries everybody. Here is where the risk arises that makes it so difficult to interest people in backing your idea.

It's a question that's really impossible to answer with any assurance. After all, major corporations even with massive market studies hit clinkers all the time. Remember the Edsel? On the other hand, an idea so seemingly stupid that you'd think it was somebody's idea of a silly joke might make millions. Don't you wish you'd thought of the pet rock?

So many factors need to be considered to answer this question. Is there a market? Where is it? Is it concentrated or dispersed? Could the size of the market change suddenly? Will competition drive you out? These questions are by no means the bottom of the iceberg. Yet, answering the money question to the satisfaction of potential backers is the key to the other questions.

Can You Protect Your Idea?

Once you've come up with tentatively satisfying answers to the originality, production and distribution, and saleability questions, it's time to consider protecting your idea. After all, it looks like you have something.

If you do have a patentable item, it's time to look into trying to protect it under the patent laws. Here briefly are the steps you'll need to follow:

- Obtain a patent information booklet that is available through the Canadian Intellectual Property Office (CIPO). They can be contacted by looking their phone number up in the blue pages of the telephone directory. In addition or as an alternative, contact your local library for publications that they may have on the subject.
- Contact an organization such as the Saskatchewan Research Council to have what is referred to as a "State of the Art" search done. This is a type of patent search that does not have the depth nor does it go back as far in time as a proper patent search, but it can help to give you a starting point from which to proceed. If you are going to proceed with this, you will have to be prepared to provide enough description of the item and its intended use so that an accurate description can be communicated to the Canadian Intellectual Property Office of Industry Canada.
- Contact a patent attorney or agent to discuss the intricacies of the patent process and the potential costs of this process. The patent office will accept an application for a patent only from the inventor or from a recognized Patent attorney or agent. You will want to weigh the advantages and disadvantages of attempting to put an application together yourself or using professional services that have experience in this field.
- Having a patent won't mean you have absolute protection. In fact, one survey found that in over 70% of the infringement cases brought by patent holders to protect their patents, the patent itself was held invalid.
- Defending your patent can be very expensive. If you don't have a patent, however, the probability of successfully protecting your invention approaches zero.

- Mere ideas or suggestions can't be patented. Some of these you may be able to put in patentable form, but for those that you can't it's pretty much do-it-yourself. Consult with a patent attorney/agent or the Patent Office about the classes of patentable subject matter.
  - Say, for example, you think you have a great gimmick for selling more of Company A's products. Leaving aside the likelihood that Company A won't be interested, how do you approach Company A with your idea with any assurance they won't simply use it without paying you a cent?
  - About the best you can do is write them a letter telling them you have a promotional (or whatever) idea and, without giving them any details, offer to send it to them. Include in your letter a statement to be signed and returned by a Company A representative promising they won't divulge your idea or make use of it without compensation (to be negotiated between them and you), if they'd like to know the details of your plan. They'll probably say thanks but no thanks or that they can't promise any such things without seeing the idea, but it's the only course open to you.

Is There Any Hope?

Each section of this publication seems to be packed with bad news, but the publication wouldn't be doing you any favors by raising false hopes. The point is, you need to be more than an idea person to make money out of an invention or other innovation.

Many small businesses have been doomed from the start because of false hopes. Those of you who already operate going firms have avoided wishful thinking in other business areas. You need to avoid it where innovations is concerned, too.

What are potential idea and invention backers looking for? If you read around in the subject, you'll run across many comments to the effect that:

- What we want is an entrepreneur, someone who cannot only invent a product but find capital and a way of getting the product on the market.
- It's better to have a fair new product and a great manager than the other way around.
- Management is the most important element for success of an invention.

Edison wasn't only an inventing genius. He was also a promoting genius, a publicity genius, a capital-raising genius, a genius at seeing potential markets for inventions.

Have you ever heard of Joseph Swan? A strong case could be made for saying he invented the electric light eight months before Edison. Who got the patents? Who got the bulb on the market? Edison. Who invented the electric light bulb? Edison.

Few of us are Edisons. We may have brilliant product ideas, but we aren't usually knowledgeable, let alone brilliant, in all of the areas that need to be covered. We need help.

Where Can You Go For Help?

While you probably still have to invest considerable perspiration yourself, you can get help with some of the sweating. Even Edison had some help.

Patent Attorneys and Agents. Attorneys and agents can help you make patent searches and applications, if you can't do them yourself. You can find attorneys and agents by looking in the classified section of your telephone directory under "Patents."

Invention Promotion Firms. Also likely to be listed in the "Patents" section of the directory, are firms that offer - for a fee - to take on the whole job of protecting and promoting your idea. Caution is necessary in dealing with such promoters.

If you elect to use an invention promotion firm make sure:

- They can provide you with solid evidence of their track record - not just a few flashy success stories, but verifiable statistics on the number of clients they've had and the number who have actually made money.
- They don't collect the entire fee in advance.
- They will provide you with samples of their promotional materials and lists of companies to whom they've sent it. (Then check with those companies yourself.)
- You check the promotion firm's reputation with the local Better Business Bureau, Chamber of Commerce, a patent attorney, or a local inventors or innovators club.

Invention Brokers. Brokers work for a portion of the profits from an invention. They may help inventors raise capital and form companies to produce and market their inventions. They often provide sophisticated management advice. In general, you can expect these brokers to be interested in more complex technology with fairly large sales potential.

University Innovation/Invention/Entrepreneurial Centres. These centres, some funded by the National Research Council and Saskatchewan Research Council, show promise for helping inventors and innovators. The best known one, the University of Waterloo, for example, evaluates an idea for a very modest fee. The Centre evaluates an idea on 33 criteria (listed earlier in the publication) to help inventors weed out bad ideas so they won't waste further time and money on them.

The Centre also identifies trouble spots that require special attention in planning the development or commercialization of a potential new product. If an idea looks like it has merit and is commercially feasible, the Centre tries to link the innovator with established companies or refers him or her to sources of funds.

Saskatchewan Industry and Resources. Regional Offices can provide information about the market research, feasibility analysis, and business planning assistance necessary to make an innovation successful.

Regional offices (1-800-265-2001) or http://www.gov.sk.ca/econdev can provide you with information about government programs. You may find other management assistance programs offered at the regional offices to help in realizing your idea as well.

Inventor's Clubs/Associations/Societies. You may have such clubs in your locality. You can share experiences with kindred spirits and get good advise, low cost evaluation, and other help.

Talking with other inventors is probably the most helpful thing you can do. Find someone who has been through the entire routing of patents, applied R&D, and stages of financing. It doesn't matter if the end result was a financial success or failure. Getting the nitty-gritty of the process is what's important.

Are You Being Unreasonable About Your Chances?

If you have read this publication and still think you can make money with your idea, some people might think you've missed the point. If you continue to believe in your idea after looking at the odds and obstacles, you are being unreasonable.

That's exactly what you should be. You're in good company.

All progress is made by unreasonable people, George Bernard Shaw observed. Reasonable people adapt to the world around them; unreasonable people try to change it.

Source: U.S. Small Business Administration

PRODUCT LICENSING

Licensing

Licensing involves obtaining permission from a company (licensor) to manufacture and sell one or more of its products within a defined market area. The company that obtains these 'rights' (the licensee) usually agrees to pay a royalty fee to the original owner.

Why Would a Company Look for Products It Can Produce Under License?

In today's world of rapid technological change, new technologies are the key to economic growth. Today, many products have very short life cycles and are readily replaced in the marketplace by new technology. If a company wants to survive, it needs to continually add new products to replace declining products.

Also, a company may want to grow and diversify by expanding its product line to take up excess manufacturing or marketing capacity, level out seasonal highs and lows, or simply add to profitability with a proven product. Companies may not have the internal skills, time, or money to develop their own new products so obtaining a proven product quickly through licensing may be very attractive.

What Are the Advantages of Licensing?

- You get access to the experience and know-how of the company that developed the product. This company may be much larger than yours, with development capabilities that you cannot afford.
- You get to break into a new market with this new product, but with the benefit of the experience gained in another market.
- It makes competition easier if you're a small company with limited resources
- You minimize your costs and risks:
    - it costs less than buying an entire company
    - you don't pay for expensive and time consuming research and development
    - you don't pay development costs up front; you pay royalties when you start making sales.
    - you won't have large losses if the product doesn't become successful in your market area

What Are the Disadvantages of Licensing?

- The license agreement is normally for a considerable period of time and there may be an annual minimum royalty required.
- New technology may become available making the licensed opportunity obsolete.
- The agreement may force the licensee to accept restrictions on its marketing.
- The licensee may lose the capacity to develop its own technology internally.

What Does A Typical Licensing Agreement Cover?

- Subject Matter of the Agreement may be (1) Patent, (2) Copyright, (3) Trademark, (4) Industrial Design, (5) Trade Secret (Know-How, Technology- Experience, etc.)
- Granting of Rights - defines what licensor is transferring to licensee
- Licensor's Obligation - sets out how transfer is to take place in terms of assistance, support, training, and co-operation
- Licensee's Obligation - sets out financial requirements, guarantees of licensee, secrecy, costs, etc.
- License Fee - fee paid to licensor on signing agreement
- Royalty - ongoing share of proceeds paid to licensor for the rights. May be a lump sum, or percentage of proceeds or amount per unit sold, etc., usually a minimum royalty is required.
- Term - how long the agreement is to last
- Designated Area and Exclusivity - define manufacturing and marketing area of license
- Termination - describes rights of both licensor and licensee to terminate agreement
- Guarantees - licensor will normally not guarantee the results of using the rights granted. The licensee may be required to provide warranties, public liabilities, etc.

How Does a Company Search and Find Products that May Be Available for Licensing?

Steps to Take:

- Prepare a Profile of Your Company
    - Name of contact person and title
    - Reason (i.e. diversification, complement present products, efficiency)
    - Facilities for manufacturing/marketing
    - Present products/services
    - Marketing area presently serviced
    - Sales volume
    - Description of search requirements (i.e. product/process, etc.)
    - Markets desired for licensed opportunity with special note if different from markets normally being serviced.
    - Exclusivity, protection requirements desired
- Search Sources

    There are a large number of sources that may be used in searching for products/processes, etc., under license that can be contacted:
    - Licensing consultants with clients offering opportunities
    - International licensing exhibitions
    - Publications offering licensing opportunities by subscription

  - Canadian consulates in foreign countries
  - Provincial trade offices in foreign countries
  - Federal/provincial/state agencies in foreign countries
  - Trade directories of manufacturers in foreign countries
  - Chambers of Commerce in foreign countries
  - Banks with international branches
  - Universities with research facilities
  - Research and development companies
  - Trade associations
  - Trade publications
  - Import Replacement

  Providing a profile of your company and its search requirements to any or all of the foregoing would result in you receiving names and addresses of prospective Licensors for your direct contact. When contacting prospective Licensors, you should enclose your company profile and request assurance that they are prepared to license.

  It would be important to ask as well if they have licensed others, and if so, request that they provide the names, addresses, etc., and permission to contact.

- Determine Feasibility of Opportunities Found

  - Licensor should provide licensee sufficient information to determine feasibility of the opportunity in the proposed area.

  - Licensor should provide: product brochure, bill of materials and specifications, labour and time, how long marketed and growth, other licensees (where located and right to contact), benefits over competition, estimated total market, warranties, marketing, training provided, financial terms, etc.

  - Prospective licensee does a feasibility study based on his area and the market he will have.

  - Licensor may require the potential licensee to sign a Confidential Disclosure Agreement before he provides a full package of information. If negotiation is lengthy the licensor may request a letter of intent and some partial payment for keeping the opportunity available for a period of time until licensee determines feasibility.

- Negotiating A License Agreement

  - Usually a licensing agreement will be provided by the licensor once it has established the licensee is serious with regard to the opportunity. The terms of the agreement are negotiable. Using the information obtained from your feasibility study and considering the financial requirements of the licensing agreement, you should be positive the licensing opportunity will provide an acceptable profit and return. Minimum annual royalties should be carefully studied to ensure they can be reasonably met.

  - A license opportunity from an inventor, if one is the first licensee should be very reasonable, as the inventor is looking for credibility, which will be established by the first licensee.

What is the Procedure if You or Your Company has a Product to License to Others?

You've invented something, it has received a positive evaluation, and has a patent pending.

Or maybe your company doesn't have the capital or expertise to manufacture and market its product to a global market.

Inventors often find it is better to license their technology rather than try to manufacture and market it themselves.

Similarly, licensing may be the only practical way for a company to maximize the potential for its existing products.

Licensing companies in other areas of Canada or in other countries expands your potential while minimising your risk by using companies that have the necessary manufacturing capability and marketing networks already in place.

Licensing can be done by a single company, however if this is not possible, an alternative is to consider a multi-prong approach to your licensing with several component parts being done by different manufacturers, final assembly by another, and possibly distribution by yet another. This may divide up the risk if the magnitude of the project is perceived too large by any one licensee.

Licensing out of a product, process, technology, etc. will follow much the same procedure as licensing in or searching for opportunities. You will need to prepare a formal presentation to explain the functionality and marketability of the concept containing the following:

- letter of introduction
- pictures of the product
- product description
- manufacturing information
- product variations
- product benefits
- market research results
- objectives for your project
- pricing breakdown

Your presentation should be sent to the same sources listed previously in this handout (see page #2 - Search Sources), and you would request that names and addresses of likely licensees be provided to you.

As a licensor, you will be expected to provide the legal agreement that will ensure both parties are fully aware of their respective rights and responsibilities, over and above simply determining royalties. Good legal advice is usually required to negotiate such things as:

- exclusive rights to the invention
- territories allocated
- what exactly is being licensed? (technology transfer, engineering specs, use of trademark)
- who pays for obtaining patents in licensed territories?
- are future improvements to the product included under the license?
- what recourse is available if the licensee is late on payments?
- can either party transfer rights under the agreement to another party?
- who bears liability resulting from injuries sustained from the product?
- what are termination provisions of the agreement?

Determining an acceptable royalty rate for a product is difficult, as there is no quick fix percentage that can be applied as a general measure. Although rates ranging from 3% to 8% of net sales are common, each licensing agreement is unique and the only consensus that matters with respect to royalty rates is the one that occurs between the licensor and the licensee as a result of negotiations.

Several factors that may influence the potential royalty rate of a licensed product include:

- if the product is already patented
- is the product "market ready"
- does the licensor have a track record of successful products?

If you are an inventor and wish to approach a large company with your invention, you may find that they have very specific policies on how they will consider unsolicited proposals. Your first response from them will usually be to spell out the terms and conditions of their corporate policy on submissions.

Source: Eureka - The Canadian Invention and Innovation Newsletter - Canadian Industrial Innovation Centre

PATENTS, TRADE-MARKS, COPYRIGHT, INDUSTRIAL DESIGN, AND INTEGRATED CIRCUIT TOPOGRAPHIES

Patents

A patent is a document that grants an inventor the exclusive right to manufacture, use, and sell an invention in Canada. Once a patent is granted, however, the patent holder may choose to sell it or license it. To obtain a patent, the inventor must provide a complete and detailed description of the invention to the Patent Office. Patents protect inventions until 20 years after filing in Canada.

Patent applications are made public 18 months after filing. Until that time, anyone has the right to sell or manufacture the item under consideration. However, if someone exploits an applicant's invention between the time it is made public and the time the patent is granted, some retroactive protection is available. Full protection is in effect from the date a patent is granted. Making patents public at 18 months has become an increasingly important means of speeding up the diffusion of new ideas to the public and stimulating further innovation. After a patent has expired, anyone may use, manufacture, or sell the invention.

Although a patent gives the inventor the right to prevent others from exploiting his invention in Canada, the patent holder is responsible for protecting himself or herself through legal channels.

Patents are granted for inventions, which are defined as any new and useful product, composition, apparatus, process, or any new and useful improvement thereof, that are not obvious to someone skilled in the particular field.

Although a patent protects the exploitation of an invention's structure and function, it is occasionally confused with copyright, which protects literary and artistic works, or industrial design registration, which protects the design of industrially produced objects.

Applicants for patents must meet all the requirements of the Patent Act. For example, the patent will not be granted if the invention was made public more than a year before filing. If an inventor, or someone who found out about the invention from him or her, makes it public during the year preceding the application, a patent can still be granted. However, some foreign countries do not have this grace period. It is best to apply first and make the invention public only later. In cases of applicants claiming the same invention, the patent is granted to the one who filed first.

To obtain a patent for an invention, the inventor must file an application with the Commissioner of Patents. Applications and additional information may be obtained from the Canadian Intellectual Property Office (CIPO), 50 Victoria Street, Place du Portage 1, 2nd Floor, C-227, Hull Quebec K1A 0C9;
Telephone: (819) 997-1936; Fax: (819) 953-7620; Email: cipo.contact@ic.gc.ca;
Website: http://cipo.gc.ca or Toll Service ($3.00 charge per call) 1-900-565-2476.

Additional information can be obtained from a patent attorney. Please refer to your local yellow pages for a listing of those in your area.

Trade-Marks

A trade-mark is a word, symbol, design, or combination of these used to distinguish the goods or services of a person or organization from those of others in the marketplace. It is not mandatory to register a trade-mark, but ownership is more easily protected if it is registered. The main advantage is the national scope of a registration. A trade-mark is registered for a period of 15 years from the date of registration and can be renewed for further periods of 15 years provided it continues to be used.

While there are no prescribed forms of a trade-mark application, information must be supplied in the format outlined in a trade-mark information kit available from the Registrar of Trade-marks. A non-refundable filing fee of $150 must be submitted to the Registrar of Trade-marks. An additional $200 is required before a certificate of registration can be issued. Please note that prices are subject to change. Inquiries may be directed to the Canadian Intellectual Property Office (CIPO), 50 Victoria Street, Place du Portage 1, 2nd Floor, C-227, Hull Quebec K1A 0C9; Telephone: (819) 997-1936; Fax: (819) 953-7620; Email: cipo.contact@ic.gc.ca; Website: http://cipo.gc.ca or Toll Service ($3.00 charge per call) 1-900-565-2476.

Additional information can be obtained from a registered trademark agent. Please refer to your local yellow pages for a listing of trademark agents in your area.

Copyright

A copyright in Canada is automatically acquired upon creation of an original literary, dramatic, musical or artistic work, provided the author is one of the following: a Canadian citizen, a British subject, a resident within Her Majesty's dominions, a citizen or subject of a country belonging to the Beme Copyright Convention, or a citizen or subject of a country belonging to the Universal Copyright Convention (or a country that grants citizens of Canada the benefits of its copyright statute on substantially the same basis as for its own citizens).

These original works include books, writings, musical works, sculptures, paintings, photographs, motion picture films, dictionaries, encyclopaedias, and computer software. They also include mechanical contrivances such as records, cassettes and tapes. Titles, names, and short word combinations are usually not protected by copyright.

Generally, the item of a copyright in Canada exists for the life of the author and 50 years following his or her death; for records, tapes, other sound recordings and photographs, it exists for 50 years from the date of making the original plate or negative.

Although basic copyright protection exists for those who do not register a copyright, it is advisable to do so. Those who do register are issued a certificate that can be used in court to establish ownership.

The fee to register a copyright is $65 (prices are subject to change). Cheques should be made payable to the Receiver General of Canada. This fee must be sent along with the application to the Canadian Intellectual Property Office (CIPO), 50 Victoria Street, Place du Portage 1, 2nd Floor, C-227, Hull, Quebec, K1A 0C9; Telephone: (819) 997-1936; Fax: (819) 953-7620; Email: cipo.contact@ic.gc.ca; Website: http://cipo.gc.ca or Toll Service ($3.00 charge per call) 1-900-565-2476.

Industrial Design

While patent law is concerned with the functional or utilitarian qualities of an article, the Industrial Design Act covers the appearance of a useful article or aspects of the design intended to make it more appealing to the eye.

An industrial design is any original shape, pattern, or ornamentation applied to the manufacturing of useful articles (e.g. the shape of a table or the decoration on the handle of a spoon). The article must be mass produced or intended for mass production.

An industrial design may be registered in Canada if it is not identical or similar to others already registered. If a design has been published in Canada before being registered, it must be registered within 12 months of the publication date. The registered owner of an industrial design has the sole right to use the design in Canada for a period of five years, renewable for a further period of up to five years.

The registration of an industrial design requires the filing of an application, available from the Copyright and Industrial Design Branch, along with the payment of a $160 fee. (Please note that prices are subject to change). For every new application, the branch carries out a search of earlier registered designs.

If no similar design is found, thus confirming the originality of the applicant's design, the design will be registered, and a certificate of registration will be issued to the owner.

Further information can be obtained from the Canadian Intellectual Property Office (CIPO), 50 Victoria Street, Place du Portage 1, 2nd Floor, C-227, Hull Quebec K1A 0C9; Telephone: (819) 997-1936; Fax: (819) 953-7620; Email: cipo.contact@ic.gc.ca; Website: http://cipo.gc.ca or Toll Service ($3.00 charge per call) 1-900-565-2476.

Excerpt from Industry, Science and Technology Canada's publication "Getting Started - Guide to Rules and Regulations Concerning the Establishment of Small Business in Canada".

Integrated Circuit Topographies

Integrated circuit topographies are now considered a form of intellectual property. Recognizing the growing impact of integrated circuit technology in virtually all fields of industry, and the need to protect Canadian innovations in this technology both nationally and internationally, Canada has introduced protection for integrated circuit topographies. Topographies are innovative, three-dimensional circuit designs used in many different products. Examples of such products are automobiles, industrial robots, cameras, spacecraft, and computers.

On May 1, 1993 the "Integrated Circuit Topography Act" and Regulations came into force. The Act defines the protection available for integrated circuit topographies, the three-dimensional configurations of the materials that form integrated circuits. Protection under this Act is extended to nationals of other countries on a reciprocal basis, thereby making protection in other countries available to Canadians.

Further information can be obtained from the Canadian Intellectual Property Office (CIPO), 50 Victoria Street, Place du Portage 1, 2nd Floor, C-227, Hull Quebec K1A 0C9; Telephone: (819) 997-1936; Fax: (819) 953-7620; Email: cipo.contact@ic.gc.ca; Website: http://cipo.gc.ca or Toll Service ($3.00 charge per call) 1-900-565-2476.

* See companion pieces in this series for additional information:

- "Critical Assessment Factors for New Products" #E5773
- "Can You Make Money With Your Idea or Invention?" #E5770
- "Inventors - Sources of Information" #E5774

CRITICAL ASSESSMENT FACTORS FOR NEW PRODUCTS

If you are either inventing a new product or considering developing a new product to add to your existing product lines, there are a number of critical factors to consider in assessing how practical this is. The following is a listing of several factors you should consider:

Technical Factors

• Function	To what limits will your product function as you have designed or intended it to do?
• Production	Can your product be produced at a reasonable and beneficial cost?

Societal Factors

• Legality	Is your product subject to any laws that limit, restrict, control, regulate or ban such things as production, ownership, distribution, or operation of the product?
• Safety	Is your product dangerous; even if it is used properly?
• Environment	Will your product contribute to degradation of our natural resources?
• Quality of Life	Will your product generate a net benefit to society?

Marketing Factors

• Potential	Is your share of the total market adequate for viable business activity?
• Price	What degree of price stability can be reasonably anticipated for your product?
• Penetration	Is there adequate revenue potential in a reasonable time frame to justify the effort required?
• Predictability	Will changes in market demands be evident in time for adequate management decisions?
• Dependence	Does your product depend on the sale of other products to be a success? Would demand for your product fade if other products were removed from the market?
• Demand Curve	Will the demand for your product last long enough to enable you to make a reasonable profit?
• Development Potential	Can your product result in a family of products from which you can profit?
• Compatibility	Does your product harmonize with current behaviour patterns and ways of doing things?
• Learning	Can customers easily understand the correct use of the product?
• Need	Does your product solve a pressing problem or fill an urgent need for the customer?
• Visibility	Are the advantages and benefits of your product self-evident when the customer hears about your product?
• Promotion Cost	Will the cost of promoting your product be reasonable in relation to production cost?
• Distribution	Will your product fit easily into established distribution networks, or will it stand alone?

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Business Risk Factors

Appearance	How does the customer judge the appearance of your product versus the alternative?
Function	Does your product work better than the alternatives?
Durability	Will your product last longer than others?
Service	Will your product require less routine service than the competitors?
Price	Do you have a price advantage?
Existing Competition	Is there a serious competitive threat in the market already?
New Competition	Can you anticipate significant, new competitive elements in the near future?
Protection	Does there appear to be a potential to protect your product through patents, trade secrets, or other means in a way that is commercially worthwhile?
Stage of Development	How much additional effort and resources are required to bring your product to a marketable or a licence ready state?
Research and Development	What magnitude or complexity of applied development will be required to sustain your product in the marketplace?
Marketing Research	What magnitude of effort will be required to define the product, place, price, and promotion that the whole marketing channel finds acceptable?
Marketing Investment	Is a much larger investment required to bring the product to market?
Payback Period	Is the time required to recover your investment shorter than the peak demand threshold?
Profitability	Is there real potential to generate adequate profits to make the venture viable?

Commercialization

Licence	Does your product have more potential and greater returns in the form of royalties or assignment fees?
Existing Business	Can your product be suitably commercialized from within your own existing business?
New Business	Would commercial advantages be served if your product were used to establish a new business?
Part-Time	Could you effectively manufacture and sell your own product on a part-time basis?

* See companion pieces in this series for additional information:

- "Patents, Trade Marks, Copyright, Industrial Design, & Integrated Circuit Topographies" #E5772
- "Can You Make Money With Your Idea or Invention?" #E5770
- "Inventors - Sources of Information" #E5774

INVENTORS
Sources of Information

The Saskatchewan Research Council (SRC) sponsors an '**Inventors Program'** which is available to residents of Saskatchewan with a new invention. This program offers general client counselling and contact with the Canadian Patent Office for a Technical Information Search (TIS). This is intended to help determine what prior registrations may be in effect or what new technology might impact on the viability. This search is not a full patent search, but will give an inventor a 'state of the art' summary profile that may aid when and if a full patent search is done.

The registration fee for this service is $42.80 ($40.00 plus GST) per invention (prices are subject to change). A copy of the application form can be found on SRC's website at: http://www.src.sk.ca/inventors.html. Additional inventor assistance services, such as product development assistance, are available through SRC's Inventor's Program. For more information contact:

Ms. Jennifer Haskey
Telelphone: 306-933-5418 or 1-800-667-5992
Fax: 306-933-7446
E-mail: haskey@src.sk.ca

The Canadian Innovation Centre in Waterloo, Ontario offers **'The Inventor's Assistance Program'** which provides a low cost, professional and confidential evaluation of the strengths and weaknesses of an invention. Additional services include a Market Information Service, an Invention Assessment, a Business Plan Evaluation and Strategic Analysis. For further information on these services, *Eureka - The Canadian Inventor's Newsletter*, or various seminars and workshops offered, please contact:

Canadian Innovation Centre
490 Dutton Drive, Unit A1
Waterloo, ON N2L 6H7
Telephone: 519-885-5870 or 1-800-265-4559
Fax: 519-885-5729
Email: info@innovationcentre.ca
Website: http://www.innovationcentre.ca

The Canadian Intellectual Property Office (CIPO), a Special Operating Agency (SOA) associated with Industry Canada, is responsible for the administration and processing of the greater part of intellectual property in Canada. CIPO's areas of activities include: patents, trademarks, copyrights, industrial designs, and integrated topographies. For more information contact the CIPO at:

Canadian Intellectual Property Office (CIPO)
Industry Canada
50 Victoria Street, 2nd Floor C-227
Place du Portage I
Hull, Quebec K1A 0C9
Telephone: (819)-997-1936
Toll Service: ($3 per call) 1-900-565-2476
Fax: (819)-953-7620
Email: CIPO.CONTACT@ic.gc.ca
Website: http://cipo.gc.ca

The following is a sample list of registered patent agents in Western Canada who deal in 'Intellectual Property'. For a complete list please contact the Canadian Intellectual Property Corporation (CIPO). (Contact information can be found on the first page of this handout).

Ade & Company
1700 - 360 Main Street
WINNIPEG, Manitoba R3C 3Z3
Phone: (204) 947-1429 or
1-800-997-1170
Fax: (204) 942-5723
Email: info@adeco.com

Kirby, Eades, Gale, Baker
112 Kent Street
Suite 770, Tower B
OTTAWA, Ontario K1P 5P2
Phone: (613) 237-6900
Fax: (613) 237-0045
Email: email@kirbyeades.com
Website: http://www.kirbyeades.com

Bailey R. Associates
441 Carlton Street
WINNIPEG, Manitoba R3B 3A2
Phone: (204) 956-7324

Blake Cassels & Graydon
855 2nd Street SW
East Tower Bankers Hall, Suite 3500
CALGARY, Alberta T2P 4J8
Phone: (403) 260-9600
Fax: (403) 260-9700
Website: www.blakes.com

George H. Dunsmuir
200 - 801 6th Street SW
CALGARY, Alberta T2P 3V8
Phone: (403) 269-2888
Fax: (403) 269-2194

Aikins, MacAulay & Thorvaldson
30th Floor Commodity Exchange Tower
360 Main Street
WINNIPEG, Manitoba R3C 4G1
Toll-free: 1-866-445-3330
Phone: (204) 957-0050
Fax: (204) 957-0840
Email: amt@aikins.com
Website: www.aikins.com

Fasken Martineau DuMoulin LLP
2100 – 1075 West Georgia Street
VANCOUVER, British Columbia
V6E 3G2
Phone: (603) 631-3131
Fax: (603) 631-3232
Email: info@van.fasken.com
Website: www.fasken.com

Thompson Lambert
103 - 10328 81st Avenue
EDMONTON, Alberta T6E 1X2
Phone: (780) 448-7326
Fax: (780) 433-5719
Email: inquiries@thompsonlambert.ab.ca
Website: www.thompsonlambert.ab.ca

Ogilvie & Company
#1400, 10303 Jasper Avenue
EDMONTON, Alberta T5J 3N6
Phone: (780) 421-1818
Fax: (780) 429-4453

Emery Jamieson
1700 Oxford Tower
10235 - 101 Street
EDMONTON, Alberta T5J 3G1
Phone: (780) 426-5220 or 1-866-212-5220
Fax: (780) 420-6277
Email: general@emeryjamieson.com
Website: http://www.emeryjamieson.com

Bennett Jones LLP
1000 ATCO Centre - 10035 105th Street
EDMONTON, Alberta T5J 3T2
Phone: (780) 421-8133
Fax: (780) 421-7951
Website: www.bennettjones.ca

The following is a list of firms located in Saskatchewan that deal in 'Intellectual Property'.

Furman & Kallio, Barrister & Solicitors
Patent and Trademark Agents
1400 - 2002 Victoria Avenue
REGINA, Saskatchewan S4P 0R7
Phone: (306) 347-0007
Fax: (306) 359-6956
Email: cfurman@furman-kallio.com
Web Site: http://www.furman-kallio.com

Mr. Rodger Linka, Barrister & Solicitor
200 Saskatchewan Place
1870 Albert Street
REGINA, Saskatchewan S4P 4B7
Phone: (306) 352-9676
Fax: (306) 569-8411
Email: rlinka@sasklaw.com
Web Site: www.sasklaw.com

Ann Phillips Q.C.
#205 - 2022 Cornwall Street
REGINA, Saskatchewan S4P 2K5
Phone: (306) 791-2626
Fax: (306) 352-2020
Email: annphillips@attglobal.net

Another information source to consider is the Internet. Helpful sites may include:

Canada-Saskatchewan Business Service Centre (CSBSC)
Phone: (306) 956-2323 (Saskatoon) or toll free: 1-800-667-4374 http://www.cbsc.org/sask
CSBSC's Website offers information on a wide variety of topics of interest to inventors. The CSBSC also has 'Inventor Kits' available which include information on patents, a list of Internet sites for inventors, articles of interest, as well as information on current federal and provincial programs that assist inventors.

National Research Council (NRC)
http://www.nrc.ca/ NRC is Canada's premier science and technology research organization. Working in partnership with innovative companies, universities, and research organizations world wide, NRC enhances Canada's social and economic well-being and creates new opportunities for Canadians. Their website provides information on what the NRC does, where they are located and what they can do for you as an inventor.

Delphion Intellectual Property Network
http://www.delphion.com Delphion provides the most comprehensive intellectual asset management (IAM) software and services available today. Delphion solutions empower business and intellectual property (IP) professionals to analyze, manage, and leverage IP assets – including ideas, patents, and licensing opportunities.

Patent Lawyers
http://www.patentable.com *Oyen, Wiggs, Green, & Matula* is the largest intellectual property a law firm in Western Canada. Their practice includes patents, trade-marks, copyright, industrial designs, trade secrets, computer law, technology transfer and licensing, franchising, unfair competition, and anti-combines (anti-trust) law.

Additional information on product development and intellectual property may be available through the public library, bookstores, or other local sources of business information. Also, see companion pieces in this series for additional information:

Patents, Trade-Marks, Copyright, Industrial Design, and Integrated Circuit Topographies #E5772
Critical Assessment Factors for New Products #E5773
Can You Make Money With Your Idea or Invention? E5770

#E5774 Inventors: Sources of Information
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MERCHANDISE FOR PROFIT

What Will an Effective Merchandising Plan Do For You?

- Increases total sales. A well-merchandised display floor will enable customers to locate the merchandise that they are looking for and make a purchasing decision.
- Makes retail selling more rewarding. A proper merchandise assortment well signed and displayed will make the selling job much easier.
- Improves inventory control. It will greatly simplify the maintenance of a physical inventory control.
- Reduces customer confusion by having the merchandise arranged in a methodical manner.
- Increases sales per customer by encouraging multiple sales transactions.
- Frees you for genuine selling activities. It is usually impossible to provide personalized service to all customers; however, effective merchandising will provide you with more time to assist those customers that require your personal attention.
- Increases impulse sales.
- Put more dollars in your pocket!

Too often after a store has been carefully merchandised, the original presentation of the goods begins to deteriorate. The concepts and philosophy that went into the original presentation is forgotten and as new items are received the only rule that is applied is simply "Where Is There Room?" For merchandising to be effective, it must be maintained on a regular ongoing basis.

Key Issues to Facilitate the Merchandising Activity

The Allocation of Display Space

- When designing a store layout, it is important to have a clear analysis of the yearly sales and gross margin dollars contributed by each merchandise grouping. Naturally those with the highest return per square foot of selling space will have contributed the most to the business.

- Every retailer should plan on allocating space to merchandise with the goal of maximizing the productivity of the sales floor. This way, the retailer will be forcing it to contribute to the growth of his/her business.

- The sales potential of each square foot of the store depends on where the entrance is located and the customer flow. The most exposed area, and therefore the most valuable space, is located at the main entrance. Merchandise with a highest level of gross margin should be located here. Remember this area creates the first impression of your store, and must not only be highly profitable, but also highly appealing. Bear in mind that only about one-quarter of the customers who enter a store will go more than half way into it...unless you use some "tricks of the trade", such as locating the most wanted merchandise at the back, to draw them into the store. For example, most grocery stores will locate the meat and/or dairy counters at the rear of the store. Merchandise located in the primary (main) traffic aisles will receive more customer exposure and less in the secondary (other) aisles. A higher level of customer exposure will occur at the junction of two or more primary aisles.

- Certainly the performance of any merchandise group will improve if it is moved to a prime location. However, do not waste valuable selling space by assigning it to merchandise that will not provide adequate gross margin dollars.

- Remember you will be paying equal rent for all square footage of your store; the prime area will have to produce enough sales to support the locations that will receive less traffic and generate less profit.

- Purchase only enough inventory to adequately merchandise the display floor with minimal backup stock.

The Importance of Proper Lighting

- In laying out your store do not forget to take into account the importance of your lighting and the impact that it will have upon the visual presentation of the merchandise. Fluorescent light is more diffused than incandescent, and tends to reduce shadows. It is particularly useful in stockrooms and offices but should be supplemented with incandescent light when displaying merchandise.

- Incandescent lighting is particularly useful in highlighting merchandise because it most closely resembles natural lighting and can radiate a concentrated point of light.

- Be selective when choosing the colour of light bulbs that you will use. Select a colour that complements your merchandise display.

Visual Display

- Displaying is the act of exhibiting, exposing, or making merchandise more desirable to the customer.

- When creating a merchandise display, remember that the merchandise is always the dominant element. Selling aids are only intended to compliment the merchandise.

- Displays should attractively reflect your store's image and be consistent with the selling season.

- Purposes of a display:

    - Create customer awareness and desire
    - Create strong, positive impression
    - Increase productivity of space
    - Maximize sales & profit

- The ideal fixture should be invisible. The less your customer sees of the fixture the more he or she sees of the merchandise. In principle, the fixtures should display the merchandise in a manner that makes it easier for the customer to recognize what the merchandise can do for him/her, simplify the purchasing decision and enhance stock-keeping.

- Since the cost of both fixtures and retail space continue to rise, fixtures are being designed to increase the capacity and productivity of each square foot of selling space.

    Flexible fixtures in your store will increase:

    - The visibility of the merchandise
    - The ease of customer access to the merchandise
    - The quantity of merchandise displayed per square foot

    NOTE: You do not have to spend a lot of money on fixtures for them to be functional and do the required job.

To be successful, it is important to remember that merchandising must be an ongoing process within your store. It is important to stay in tune with the basic techniques and understand how they can be used to your advantage to attract and direct a customer's attention.

The following illustrate some of the more commonly used methods of display:

- *Display Merchandise in Commodity Groupings*

For example, if you owned and operated a hardware store it would be advantageous to display all the carpenter hand tools in one area of the display floor.

- *Display Related Commodity Groupings in Adjacent Areas*

For example, if you owned and operated a ladies wear store you would display the tops adjacent to the pants and skirts.

This type of a merchandising scheme facilitates add on sales.

- *Cross Aisle Merchandising*

A technique that displays related products across the aisle from each other.

- *Display Merchandise in Vertical Modules*

In this method, the merchandise is featured in a vertical block from top to bottom, small to large, light to dark. The concept is to provide the customer with a complete visual presentation of the merchandise assortment in a particular category.

For example, if you were displaying T-shirts in a cubical display:

	Item #1	
Yellow - S	Blue - S	Red - S
Yellow - M	Blue - M	Red - M
Yellow - L	Blue - L	Red - L

- *Display Merchandise in Colour Blocks*

This is a method of display in which the merchandise is organized into colour blocks, from left to right, from light to dark. The effect is to create a display that is visually appealing to the customer.

For example, if you were arranging T-shirts on a hanging fixture the display would look like:

Yellow - S, M, L	Blue - S, M, L	Red - S ,M, L

This type of display would present the customer with a complete assortment of merchandise from which to make a purchasing decision and minimizes the amount of time required for daily housekeeping chores.

- *Display Merchandise From Left to Right in Ascending Order*

  Arrange merchandise small to large.

Other Points To Consider

The Importance Of Ticketing Your Displayed Merchandise

- All items that are offered for sale should bear a price ticket that clearly identifies the items as to its stock or manufacture's number, the unit selling price, and the date code (the date the merchandise was received in the store).

The Importance Of Daily Housekeeping

- Today's customer has many choices when it comes to making a purchasing decision. The merchandise selection by itself, although important, is seldom the primary reason for the customer shopping in your store. The challenge then is to create and maintain an inviting atmosphere that will encourage the customer to enter your store and make a purchasing decision. In short, effective merchandising is not attained but rather it is maintained through the daily housekeeping efforts of both you and your staff.

DEPARTMENTALIZING AND INVENTORY MANAGEMENT IN A RETAIL STORE

The breaking down of a retail store into categories can have a number of benefits to the retail operation. Included in these benefits is the ability to help organize and manage your store's inventories more effectively. More importantly, it can contribute significantly to the overall profitability of the store.

The following are suggestions on the basic steps that could be followed in organizing a retail store by departments:

- Categorize the merchandise into groupings of "Like" kinds of merchandise. Examples of this could include grouping all giftware together, all housewares together, all food related products together, etc.
- Assign a stock number to each item in the store which would follow some logical sequence and then be recorded to avoid potential duplication.
- Ticket all merchandise to include all or part of the following:
    - Category numbers
    - A stock aging number/letter to help you to know when the stock came into the store
    - Retail price
    - Other suggested coding/combinations could be supplier, style, size and colour, cost stock keeping unit (S.K.U. number)

- Set up the cash register to record sales based on the category breakdown
- Set the record keeping up to match to the categories
- Merchandise the sales floor to the categories
- Plan and analyze sales and purchases to the categories

NOTE: The breaking down of a store into categories should be done keeping the following in mind:

- Break the groupings down to the level that relevant information is provided to you on their individual category performances.
- Do not break them down to levels so small that they do not make sense.
- Ensure that the work, cost, and time in managing this system is not greater than the benefits you want from it.
- Ensure your cash register (point of sale) and your record keeping system (management information system or M.I.S.) have the ability to handle these category information breakdowns.
- Ensure all staff members are aware of what you are doing and the importance of it.

The following are additional points to be noted in this process:

- All stock should be organized on the sales floor according to these categories, keeping the groupings in proximity to each other, re-ticketing the stock if necessary, and then taking a physical inventory by category to establish an inventory cost by the category. At year end, a closing inventory would also be taken by category.

- If the record keeping system has been set up properly, purchases should also have been recorded by category.

- A point to keep in mind when organizing by categories is to remember that it is not always a cut and dry procedure, particularly when you have suppliers shipping a range of merchandise that may cover different departments, and invoicing all on one invoice. Your option in these situations is to manually pull the information off the invoice by department, or more simply, to order merchandise on separate purchase order numbers done by category. A cost of goods sold and gross margin can then be calculated for each department. The category's performance can then be measured. If successes or problems are identified, the category can be analyzed for the reasons.

- Once the categorizing of these levels has been completed, a system of reordering should be put in place. Reordering in many situations is done by the "eyeballing of the inventory" method but this method may not give you the accuracy and control you may require and want.
- A more reliable way is to set up a manual item stock records system. It can be very basic and record information by department, manufacturer, season, item, item cost, and retail and units sold. Regular stock counts can take place weekly, monthly, etc. as the product turnover dictates. Categories can then be summarized at determined intervals for analysis from the stock counts. If completed at least once a month, an extension of the units and cost can give you an estimate of the dollar inventory on hand. If a physical inventory is done, a comparison between what should be there and what is actually there can also be done. If there is a shortfall, a stock shortage or shrinkage is created and the cause should be determined.
- This basic system can be taken one step further to include a plan to estimate sales for a product and project quantities to buy, thereby attempting to reduce potential stock outs. A potential danger is to over estimate projected sales quantities, which may create stock problems. A key part of this total process is the use of purchase order forms, including order numbers, shipping and cancellation dates, item listings, costs, terms, shipping instructions, and whether or not substitutions will be accepted. At the same time, it is important that all merchandise arriving into the store is checked against the invoice and the purchase order.
- Stock counts should be done by staff familiar with the products areas, and should include identifying damaged or problem stock for action, housekeeping, etc. Sales representatives from companies can potentially also be a source of help. Counts can be done on a rotational basis with other categories through the month, and do not have to be done all at the same time. A caution is to not get this to the level that it does not make sense, and thereby requires time and effort that the results cannot justify. As well, it should also be watched that staff do not get so involved in counting of stock that customers are ignored.
- Computer inventory link-ups to cash registers, if workable, can be of benefit. An evaluation of the system, labour, and other associated costs should be weighed against the benefits needed, and the performance of your current manual system. It may not be advisable to convert your system. A manual system should be established first. Get it working and be comfortable with it before considering moving to a computer system.
- From this, category and individual item sales and purchase planning can now be done. This can be referred to as a "Buying Plan". This can help to identify planned dollar purchases by month and category, and can be broken down to make allowances for purchase of basic items, promotional items, seasonal placings, and opportunity buys. This would be maintained on an ongoing basis and be adjusted, for example, based on sales results, stock levels, shipping problems, etc.
- Once the purchasing requirements have been established, they can be now worked into the basic cash flow planning process to determine requirements. To this point, this has been a bottom up process. It is conceivable that cash flow limitations from a top down look can restrict or force a reconsideration of purchasing requirements. This would then have to be worked back down, and decisions made accordingly.

STORE LOCATION: "LITTLE THINGS" MEAN A LOT

Summary

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice -- success.

This publication takes up site selection criteria, such as retail compatibility and zoning, that the small store owner-manager must consider after making basic economic, demographic, and traffic analysis. It offers questions the retailer must ask (and find answers to) before making the all important choice of store location.

The first step in choosing a retail business location takes place in your head. Before you do anything else, define your type of business in the broadest terms and determine your long-term objectives. Write them down. This exercise will help you in choosing a retail location.

In picking a store site, many store owners believe that it's enough to learn about the demographics (i.e. age, income, family size, etc.) of the population, about the kind of competition they will be facing, and about traffic patterns in the area they are considering. Beyond a doubt these factors are basic to all retail location analysis.

Once you have spotted a tentative location using these factors, however, you have only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help ensure your satisfaction with -- and most importantly your success at -- the site you have chosen.

Retail Compatibility

How important is retail compatibility? For a small retail store in its first year of operation, with limited funds for advertising and promoting, retail compatibility can be the most important factor in the survival of the store.

Will you be located next to businesses that will generate traffic for your store? Or will you be located near businesses that may clash with yours?

For example, if you offer 'shoppers' (items such as men's and women's clothing, major appliances, or expensive jewellery), the best location is near other stores carrying shoppers goods. Conversely, locating your shoppers goods store in a 'convenience goods' area or centre is not recommended. Convenience goods stores include supermarkets, hardware stores, bakeries, package stores, and drug stores.

Take a look at shopping centres in your area. Invariably, you will find a clothing centre, shoppers goods and convenience goods outlets may now be found co-existing easily under the same roof. In this situation, it is still important to be located in a section of the shopping complex that is conducive to what you are selling. For example, a pet store should not be located immediately adjacent to a restaurant, dress shop, or salon. You would want to locate a gift shop near places like department stores, theatres, restaurants, -- in short, any place where lines of patrons may form, giving potential customers several minutes to look in the gift shop's display windows.

Merchants Associations

Most first time business owners have no idea how effective a strong Merchants Association can be in promoting and maintaining the business in a given area. Always find out about the Merchants Association. The presence of an effective Merchants Association can strengthen your business and save you money through group advertising programs, group insurance plans, and collective security measures. A strong Merchants Association can accomplish through group strength what an individual store owner could not even dream of. Some associations have induced city planners to add highway exits near their shopping centre.

Others have lobbied for -- and received -- funds from cities to remodel their shopping centres, including extension of parking lots, refacing of buildings, and installation of better lighting.

Merchants Associations can be particularly effective in the promotion of stores using common themes or events and during holiday seasons. The collective draw from these promotions is usually several times what a single retailer could have mustered.

How can you determine if the retail location your are considering has the benefit of an effective Merchants Association? Ask other store owners in the area. Find out:

- How may members the association has;
- Who the officers are;
- How often the group meets;
- What the early dues are;
- What specifically, it has accomplished in the last 12 months.

Ask to see a copy of the last meeting minutes. Determine what percentage of the members were in attendance.

What if there is no Merchants Association? Generally, a shopping area or centre without Merchants Association is on the decline. You will probably see extensive litter or debris in the area, vacant stores, a parking lot in need of repairs, and similar symptoms. You should shun locations with these warning signs. With a little on-site investigation, they are easy to avoid.

Responsiveness Of The Landlord

Directly related to the appearance of a retail location is the responsiveness of the landlord to the individual merchant's needs. Unfortunately, some landlords of retail business properties actually hinder the operation of their tenants' businesses. They are often, in fact, responsible for the demise of their properties.

By restricting the placement and size of signs, by forgoing or ignoring needed maintenance and repairs, by renting adjacent retail spaces to incompatible -- or worse, directly competing -- businesses, landlords may cripple a retailer's attempts to increase business.

Sometimes landlords lack the funds to maintain their properties. Rather than continuing to invest in their holdings by maintaining a proper appearance for their buildings and supporting their tenants, they try to 'squeeze' the property for whatever they can get.

To find out if a landlord is responsive to the needs of the retail tenants, talk to the tenants before you commit to moving in yourself. Ask them:

- Does the landlord return calls in a reasonable period and send service people quickly?
- Is it necessary to nag the landlord just to get routine maintenance taken care of?
- Does the landlord just collect the rent and disappear, or is he or she sympathetic to the needs of the tenants?
- Does the landlord have any policies that hamper marketing innovations?

Zoning And Planning

Your town's zoning commission will be happy to provide you with the latest 'mapping' of the retail location and surrounding areas that you are considering. Here are some questions to consider:

- Are there restrictions that will limit or hamper your operations?
- Will construction or changes in city traffic or new highways present barriers to your store?
- Will any competitive advantages you currently find at the location you're considering be diminished by zoning changes that will be advantageous for competitors or even allow new competitors to enter your trade area?

Most zoning boards, along with economic/regional development committees, plan several years in advance. They can probably provide you with valuable insights to help you decide among tentative retail locations.

Leases

Directly related to zoning is your intended length of stay and your lease agreement. Before you enter into any rigid lease agreement, you must get information on future zoning plans and decide how long you wish to remain at the location under consideration:

- Do you plan to operate the business in your first location indefinitely or have you set a given number of years as a limit?
- If your business is successful, will you be able to expand at this location?
- Is your lease flexible, so that you have an option to renew after a specified number of years? (On the other hand, is the lease of limited duration so, if need be, you may seek another location?)

Study the proposed lease agreement carefully. Get advice from your lawyer or other experts. Does the agreement:

- Peg rent to sales volume (with a definite scaling) or is rent merely fixed?
- Protect you as well as the property owner?
- Put in writing the promises the property owner has made about repairs, construction and reconstruction, decorating, alterations, and maintenance?
- Contain prohibitions against subleasing?

Consider these factors before you settle on a location.

Other Considerations

A host of other considerations have varying importance in choosing a retail location, depending on your line of business. The following questions, while they certainly don't exhaust all possibilities, may help you decide on a retail location:

- How much retail, office, storage, or workroom space do you need?
- Is parking space available and adequate?
- Do you require special lighting, heating or cooling, or other installations?
- Will your advertising expenses be much higher if you choose a relatively remote location?
- Is the area served by public transportation?
- Can the area serve as a source of supply of employees?
- Is there adequate fire and police protection?
- Will sanitation or utility supply be a problem?
- Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?
- Are customer restroom facilities available?
- Is the store easily accessible?
- Does the store have awnings or decks to provide shelter during bad weather?
- Will crime insurance be prohibitively expensive?
- Do you plan to provide pick up or delivery?
- Is the trade area heavily dependent on seasonal business?
- Is the location convenient to where you live?
- Do the people you want for customers live nearby?
- Is the population density of the area sufficient?

Help In Choosing A Location

Choosing a retail location is, at best, a risky undertaking. Considering the consequences of choosing a location that proves to be unsuitable, it pays to get as much assistance as possible.

You may wish to hire a consultant to analyze two or three locations that you have selected. It costs less if you provide the consultant with pre-selected potential locations than to have him or her initiate an open-ended search for a location. The business school of a nearby college or university may also be able to provide help.

Other sources of information on potential locations include bankers and lawyers, who may have been in position to have observed over an extended period of time many locations where other clients previously did business.

Realtors can also provide information on location. Remember though, their compensation is based upon commissions for renting property.

Locate In Haste, Repent At Leisure

Selection of a retail location requires time and careful consideration. It should not be done in haste just to coincide, say, with a loan approval. If you haven't found a suitable location, don't plan to open until you're sure you've got what you want. Put your plans on hold, don't just settle for a location you hope might work out. A few months delay is only a minor setback compared to the massive -- often fatal -- problems that occur from operating a retail business in a poor location.

Source: U. S. Small Business Administration

#F5778 - Store Location: "Little Things" Mean a Lot
Saskatchewan Industry and Resources
Business and Co-operative Services
04/02

MARKETING CHECKLIST FOR SMALL RETAILERS

This publication is a checklist for the owner-manager of a small retail business. The questions cover areas of retail marketing, including aspects like customer analysis, buying, pricing, and promotion. You can use it to evaluate your current status and, perhaps, to rethink certain decisions.

If your retail firm is to be successful over the long run, it must satisfy the needs and desires of its present and potential customers. Sound buying means knowing where to buy, what to buy, how much to buy, and how to place an order. This requires familiarity with old and new products, adequate amounts of the right stock on hand, and selecting and working with suppliers in ways that benefit the store. In pricing, you need to understand the market forces affecting your business, plan the price policies that you will follow, and know whether or not your pricing policies meet Provincial and Federal regulations.

In addition, you need to be familiar with various types of promotion and when, where, and how to use them. For example, a credit program or other special customer services can be attractions.

Under the heading of management goes the establishment both of long and short-term goals. How you set up your organization and how you communicate with your employees are crucial factors in the accomplishment of your goals. Of equal importance to good management is the ability to keep and make use of accurate financial records. It also pays to examine your insurance coverage in various areas.

In answering the following questions, you will be reminded of what you may still need to do to round out all marketing aspects of your business.

Customer Analysis	**Yes**	**No**
Who are your target customers and what are they seeking from you?	___	___
Have you estimated the total market you share with competition?	___	___
If you concentrate on a segment, is it large enough to be profitable?	___	___
Have you looked into possible changes taking place among your target customers which could significantly affect your business?	___	___
Can you foresee changes in the makeup of your store's neighbourhood?	___	___
Are incomes in the community apt to be stable?	___	___
Is the community's population subject to fluctuation?	___	___
Do you stress a special area of appeal, such as lower prices, better quality, wider selection, convenient location, or convenient hours?	___	___
Do you ask your customers for suggestions on ways to improve your operation?	___	___

	Yes	No
Do you belong to a trade association?	____	____
Do you subscribe to important trade publications?	____	____
Have you considered using a consumer questionnaire to aid you in determining customer needs?	____	____
Do you visit market shows and conventions to help anticipate customer wants?	____	____
Do most of your customers buy on the weekends?	____	____
Do sales increase in the evening?	____	____
Do the majority of your customers prefer buying on credit?	____	____

Buying

Do you have a merchandise budget (planned purchases) for each season?	____	____
Does it take into consideration planned sales for the season?	____	____
Does it achieve a planned stock turnover?	____	____
Have you broken it down by departments or merchandise classifications?	____	____
Have you a formal plan for deciding what to buy and from whom?	____	____
Have you a system for reviewing new items coming onto the market?	____	____
Have you considered using a basic stock list or a model stock plan in your buying?	____	____
Are you using some sort of unit control system?	____	____
Do you keep track of the success of your buying decisions in previous years to aid you in next year's buying?	____	____
Have you a useful supplier evaluation system for determining their performance?	____	____
Have you established a planned gross margin for your firm's operations and are you buying so as to achieve it?	____	____

	Yes	No
Pricing		
Have you established a set of pricing policies?	____	____
Have you determined whether to price below, at, or above the market?	____	____
Do you set specific markups for each product?	____	____
Do you use a one-price policy rather than bargain with customers?	____	____
Do you offer discounts for quality purchases, or to special groups?	____	____
Do you set prices to cover full costs on every sale?	____	____
Have you developed policy on when to take mark-downs and how large?	____	____
Do the prices you have established earn planned gross margin?	____	____
Do you clearly understand the market forces affecting your pricing methods?	____	____
Do you know which products are slow movers and which are fast?	____	____
Do you take this into consideration when pricing?	____	____
Do you know which products are price sensitive to your customers, that is, when a slight increase in price will lead to a big drop off in demand?	____	____
Do you know which of your products draw people when put on sale?	____	____
Do you know the maximum price customers will pay for certain products?	____	____
If the prices on some products are dropped too low, do buyers hesitate?	____	____
Is there a specific time of year when your competitors have sales?	____	____
Do your customers expect sales at certain times?	____	____

	Yes	No
Have you determined whether or not a series of sales is better than one annual clearance sale?	____	____
Do you know what role you want price to play in your over-all strategy?	____	____
Are you influenced by competitors' price changes?	____	____
Are there restrictions regarding prices you can charge?	____	____
Do any of your suppliers set a minimum standard at which it can be sold?	____	____
Does your Province have fair trade practice acts, which require you to mark up your merchandise by a minimum percentage?	____	____
Are there any Provincial regulations on how long 'close out' sales can be advertised?	____	____
Are you sure you know all the regulations affecting your business, such as two-for-one sales and the like?	____	____
Do you issue 'rainchecks' to customers when sales items are sold out so they can purchase later at a sale price?	____	____

Promotion

Are you familiar with the strengths and weaknesses of various promotional methods?	____	____
Have you considered which type might be used for your firm?	____	____
Do you know which of your items can be successfully advertised?	____	____
Do you know which can be sold best by demonstrations?	____	____
Do you know when it is profitable to use institutional advertising?	____	____
Do you know when product advertising is better?	____	____
Do you know which of the media (radio, television, newspapers, yellow pages, handbills) can most effectively reach your target group?	____	____
Do you know what can and cannot be said in your ads (Truth in Advertising requirements)?	____	____
Can you make use of direct mail?	____	____

	Yes	No
Is a good mailing list available?	____	____
Are your promotional efforts fairly regular?	____	____
Do you concentrate them on certain seasons?	____	____
Are certain periods of the week better than others?	____	____
Is there available financial or technical assistance that you can use to enhance your promotional efforts?	____	____
Can you get help from local newspapers, radio or television?	____	____
Are co-operative advertising funds available from suppliers?	____	____
Do you tie your local efforts to your supplier's national program?	____	____
Do you join with other merchants in area-wide programs?	____	____
Have you looked for ratios to estimate what comparable firms are spending on promotion?	____	____
Do you study the advertising of other successful retail firms, as well as you your competitors?	____	____
Have you some way of measuring the success of the various promotional programs you are using?	____	____
Are your products displayed to maximize their appeal within the store?	____	____
Do you know which of your items have unusual eye appeal and can be effective in displays?	____	____
Have you figured out the best locations in the store for displays?	____	____
Are you making use of window displays to attract customers?	____	____
If you use multi-tiered display stands or gondolas, do you know which shelves are the best sellers?	____	____
Have you a schedule for changing various displays?	____	____
Do you display attention-getting items where they will call attention to other products as well?	____	____
Do you know which items are bought on 'impulse' and therefore should be placed in high traffic areas?	____	____
Where price is important, do you make sure the price cards are easy to read?	____	____

	Yes	No
Do your suppliers offer financing of accounts receivable, floor planning, and so forth?	____	____
Do you know what type of credit program (if any) you should offer?	____	____
Does the nature of your operation require some type of credit for your customers?	____	____
Have you discussed credit operations with your local credit bureau?	____	____
Would a credit program be a good sales tool?	____	____
Is a credit program of your own desirable?	____	____
Have you looked into other programs or credit cards?	____	____
If you set up your own credit program, do you know what standards you should use in determining which customers can receive credit, for what time periods, and in what amounts?	____	____
Do you know all of the costs involved?	____	____
Will the interest you charge pay for these costs?	____	____
Do you know about the Cost of Credit Disclosure Act?	____	____
Have you determined a safe percentage of your business to have on credit that won't jeopardise paying your own bills?	____	____
Do you offer some special customer services?	____	____
If you offer delivery service, do you own your vehicles?	____	____
Have you considered leasing them instead?	____	____
Have you thought about using commercial delivery service?	____	____
Do you charge for delivery?	____	____
If not, do you know how to work delivery expenses into the selling price of your products?	____	____
Have you a policy for handling merchandise returned by customers?	____	____
Have you considered certain obligations to your community, in terms of charitable contributions, donations for school functions, ads in school yearbooks, etc.?	____	____

	Yes	No
Do you participate in activities of your chamber of commerce, merchants' association, better business bureau or other civic organizations?	____	____
Management		
Have you developed a set of plans for the year's operations?	____	____
Do your plans provide methods to deal with competition?	____	____
Do they contain creative approaches to solving problems?	____	____
Are they realistic?	____	____
Are they stated in such a way that you know when they have been achieved?	____	____
Have you a formal plan for setting aside money to meet any quarterly tax payments?	____	____
Are you organized effectively?	____	____
Are job descriptions and authority for responsibilities clearly stated?	____	____
Does your organizational structure minimize duplication of effort and maximize the use of each employee's skills?	____	____
Do employees understand how they will be rated for promotion and salary increases?	____	____
Does your wage schedule meet the local rate for similar work and retain competent employees?	____	____
Would you or some of your employees profit by taking business education courses offered at local schools?	____	____
Will training help your employees achieve better results?	____	____
Do your experienced employees help train new and part-time employees?	____	____
Have you good working conditions?	____	____
Do you use positive personal leadership techniques like being impartial, giving words of encouragement and congratulations, and listening to complaints?	____	____

	Yes	No
Are you familiar with the Labour Standards Act as it applies to minimum wages, overtime payments, and child labour?	____	____
Do you avoid all forms of discrimination in your employment practices?	____	____
Do you have a formal program for motivating employees?	____	____
Have you taken steps to minimize shoplifting and internal theft?	____	____
Have you an effective system for communicating with employees?	____	____
Are they informed on those plans and results that affect their work?	____	____
Do you hold regular meetings that include all personnel?	____	____
Do your employees have their own bulletin board for both material you need to post and items they wish to post?	____	____
Have the 'rules and regulations' been explained to each employee?	____	____
Does each employee have a written copy?	____	____
Is each employee familiar with other positions and departments?	____	____
Do you have an 'open door' policy in your office?	____	____

Financial Analysis and Control

Have you established a useful accounting system?	____	____
Do you know the minimum amount of records you need for good control?	____	____
Do you know all the records you should keep to aid you in meeting your tax obligations on time?	____	____
Do your sales records give the key information you need to make sound decisions?	____	____
Can you separate cash sales from charge sales?	____	____
Can sales be broken down by department?	____	____
Can they be broken down by merchandise classification?	____	____

	Yes	No
Do they provide a way to assess each salesperson's performance?	____	____
Do your Inventory records give the key information you need to make sound decisions?	____	____
Do they show how much you have invested in merchandise without the necessity of a physical inventory?	____	____
Do you know the difference between inventory valuation at cost and at market?	____	____
Can you tell which one shows a loss in the period earned?	____	____
Can you tell which one conserves cash?	____	____
Do you understand the pros and cons of the cost method of inventory accounting versus the retail method?	____	____
Have you found an accounting method that shows the amount of inventory shortages in a year?	____	____
Do your expense records give you the key information you need to make sound decisions?	____	____
Do you know which expense items you have to greatest control over?	____	____
Are the records sufficiently detailed to identify where the money goes?	____	____
Can you detect those expenses not necessary to the successful operation of your business?	____	____
Do you effectively use the information on your profit and loss statement and balance sheet?	____	____
Do you analyze monthly financial statements?	____	____
Can you interpret your financial statements in terms of how you did last year and whether you met this year's goal?	____	____
Do your financial statements compare favourably with other similar businesses in terms of sales, cost of sales, and expenses?	____	____
Are you undercapitalized?	____	____
Have you borrowed more than you can easily pay back out of profits?	____	____

	Yes	No
Can you see ways to improve your profit position by improving your gross margin?	____	____
Do you use the information contained in your financial statements to prepare a cash budget?	____	____
Insurance		
Have you adequate insurance coverage?	____	____
Do you have up-to-date fire coverage on both your building equipment and inventory?	____	____
Does your liability insurance cover bodily injuries as well as libel and slander suits?	____	____
Are you familiar with your obligations to employees under both common law and workers' compensation?	____	____
Do you spread your insurance coverage among a number of agents and take the risk of overlapping coverage or gaps which may raise questions as to which firm is responsible?	____	____
Has your insurance agent shown you how you can cut premiums in areas like fleet automobile coverage, proper classification of employees under workers' compensation, cutting back on seasonal inventory insurance?	____	____
Have you looked into other insurance coverage, such as business interruption insurance or criminal insurance?	____	____
Do you have some fringe benefit insurance for your employees (group life, group health, or retirement insurance)?	____	____

These questions are meant to help you analyze your retail operation from the marketing viewpoint. You should know the strengths of your business and products. You must also know the real problems you are up against. Your business depends on your management abilities. You must adapt to new markets, product changes, and be innovative to keep your business growing.

Source: U.S. Small Business Administration

ADVERTISING GUIDELINES FOR SMALL RETAILER FIRMS

Summary

Advertising is not merely an element of business expense; it is an investment in building your sales. The future growth of your business will be influenced by your ability to plan and execute an effective advertising program. This publication offers guidelines to help you plan your advertising budget, select media, use co-operative advertising, and prepare the advertisement itself.

CUSTOMERS WANTED, NO EXPERIENCE NECESSARY was the sign one hobby and toy retailer displayed across an entire window. Perhaps the owner thought this was funny, but valuable advertising space was being wasted.

Windows are valuable attention-getters. This retailer should have featured products, prices, or 'specials' instead. The retailer not only missed the opportunity to advertise products, but also missed the chance to project the store image to the passing public.

In retail merchandising, advertising begins with the store and its windows. Rental costs depend on location and customer traffic, so window displays have special values. One study by a trade publication allocated as much as 40 percent of the store's rent to its window space. The giant stores in New York, Chicago, or Los Angeles fully capitalize their window values, but smaller stores often waste them.

Start With the Sales Budget

The sales budget is the foundation of all business. It affects profits and costs, including the advertising investment. In preparing the advertising budget, first decide what percentage of your anticipated sales volume you will allocate to advertising. This percentage will vary according to the condition of the business, local competition, and the nature of your products. Trade journals offer comparative percentage statistics on an industry-wide basis. By multiplying your total anticipated sales by the percentage, you will get the total amount of advertising money you can budget for the year.

Then, many good owner-managers find it convenient to base their advertising on their planned sales for each month. For example, if March contributes 8 percent of the year's sales, they plan to spend 8 percent of the advertising budget for that month. This way you can base your advertising for each month on the planned sales for that particular month.

One exception to this approach might be the Christmas season, which contributes as high as 25 percent of yearly sales for some businesses. It would probably be unwise to spend that much of your total budget for that period. However, you can build some flexibility into your budget if you plan in six-month blocks. This will allow you to spend part of your Christmas advertising money in October and November in preparation for Christmas. Of course, this will vary from business to business.

Finally, you should allocate any money you will need to accomplish a specific task you have planned. Examples of this task approach are: starting a new business with the announcement of the 'grand opening' introducing a new product, or conducting a special promotion. This allocation is simply added to the regular budget.

Advertising is a completely controllable expense. The function of the budget is to control advertising expenditures. This can be done through a monthly tabulation, as shown in the following chart. With this record, the danger signals flash when the budget is over-extended.

The accounts listed in the chart are not comprehensive; they serve only as examples. For instance: some companies include publicity in the advertising budget, others treat it separately.

Advertising Budget

Account	Month Budget	Actual	Year to Date Budget	Actual
Media				
Newspapers				
Radio				
TV				
Literature				
Other				
Promotions				
Exhibits				
Displays				
Contests				
Advertising Expenses				
Salaries				
Supplies				
Stationery				
Travel				
Postage				
Subscriptions				
Entertainment				
Dues				
Totals				

Profile Yourself and Your Customers

The next step in your advertising plan is to take a good look at both yourself and your customers. You will need the answers to such questions as:

- What business am I in?
- What quality of merchandise do I sell?
- What kind of image do I want to project?
- How do I compare with competition?
- What customer services do I offer?
- Who are my customers?
- What are their income levels?
- Why do they buy from me?
- When do they buy from me?

By profiling yourself and your customers in this way, you will be better able to direct your sales message to those more likely to buy and thus make more effective use of your advertising dollar. For example, if you own a clothing store and are planning a sale on jeans and T-shirts, a message on a local popular radio station might be a better choice than a more distant classical music station. You might also specify a time for broadcast that is after school hours if your anticipated customers are teenagers.

Advertising Media

When you know what you want to advertise and whom you want to reach with your message, you must select the advertising medium to reach them most effectively. Because of the local nature of their operation, most retailers find newspapers, radio, and direct mail the most commonly available choices. However, to reach wider markets, you may consider other media such as magazines, television, billboards and transportation signs.

Newspapers. Some retailers consider them a primary advertising medium for several reasons. They offer the advantages of local coverage and precise timing. In addition, results may be measured in terms of specifically-featured products or prices. Newspapers also lend themselves to promotional tie-ins such as coupon use or contests. Rates are related to circulation and vary according to the number of newspaper 'lines' contracted over a period of time.

To compare the rates of newspapers with different circulation figures and different costs, a formula for establishing a common basis has been developed, known as the milline rate. The formula is:

$$\frac{\text{Line rate} \times 1{,}000{,}000}{\text{Actual circulation}} = \text{Milline rate}$$

If rates are quoted in column-inches, they may be used in the formula instead of line rates.

There is some difference in thought about the best technique for newspaper advertising. Some owner-managers prefer four quarter-page ads to one full page. Others think it better to have fairly large-sized ads and run them so they really make an impact. Others successfully use the skip method where they run several ads to make an impact and then skip a period of time with no advertising.

In some areas, 'patterns' may emerge and must also be considered. For example, a retailer may find that the best results are obtained when ads are run just before pay day of a large local industry.

If the newspapers you deal with offer special locations, specify the position you want. When possible, aim for upper locations.

Radio. Radio follows the listener everywhere, in the home and on the highway. It is characterized by immediacy in scheduling, lower rates compared with other media, and little or no production costs.

Basic rates depend on the number of commercials contracted for, the time periods specified and whether the station broadcasts on AM or FM frequencies. Some stations offer both AM and FM coverage. Usually FM broadcasting is more localized and offers wider tonal range, due to highly technical reasons.

In negotiating a contract, some stations may propose a 'barter' arrangement in which part of the cost, sometimes as much as 50 percent, may be paid in merchandise. This is especially true where the retailer can provide material needed by the station in its own operation. One station offered such a deal to an office supply retailer. Another example concerned a printing establishment.

It is good business practice to:

- Be sure the commercials are broadcast at the times specified.
- Instruct the station when to change the message if the 'copy' refers to specific dates or occasions.
- Ask for invoices in duplicate or triplicate when actual copies are required by co-operative arrangements with suppliers.

Direct Mail. An accurate, up-to-date mailing list plays the most important roll in direct mail advertising. Stores with charge accounts have a valuable list at their disposal, waiting to be used.

Direct mail has many purposes. It can be aimed at old customers, inviting them to pre-sale occasions. It can be focused on prospective customers for individual products. Or it can be used to create 'goodwill'.

Smaller stores, or stores without credit accounts, can build up their own lists from publications or directories.

Consult the post office in advance regarding fees, permits, and other requirements.

Benefit from Co-operative Advertising Policies of Suppliers

Many manufacturers and wholesalers state that a significant part of the reserves they set up for co-operative advertising are not used by their retailers. This is surprising because co-operative advertising results in substantially lower costs for the retailer.

For their own legal protection and to insure the greatest return from their investment, manufacturers set up specific requirements to be observed in co-operative advertising. The retailer should consult each vendor about the requirements which must be met to qualify. The retailer must also be aware of the procedures to follow to apply for and receive payments. Some vendors relate co-operative dollars to the amount of the retailer's business. Others do so on a percentage basis. So, you must be aware of how many co-operative dollars you have to spend. The amount and rules for payment of co-operative dollars are at the discretion of the vendor.

'Goodwill' Advertising

Every retailer receives requests and solicitations for advertising by all types of organizations including social groups, schools, churches, and fraternal societies. Often, friends and relatives make these requests. From the standpoint of maintaining good public relations, the retailer is frequently reluctant to turn them down. The cost of these donations should not be charged to advertising but to publicity or to 'contributions' so that the advertising budget is not distorted.

Use Promotional Ideas in Your Advertising

Retailers featuring products without the benefit of low prices, novelty, or new features have found promotional techniques an excellent basis for their advertising. Action is the keynote for sales promotion; however, merchandising ideas are the necessary prelude to action. If you co-ordinate promotion with advertising and personal selling, you can usually increase store traffic and thus produce good sales results.

The first requirement is a sound selling idea such as a 'special sales' event, price discounts, a liberal credit plan, a contest, or a premium offer. There are many sources of promotional campaign suggestions, including trade journals, newsletters and various books on the subject.

Once you have planned and scheduled the campaign, promote it through the use of newspaper and radio advertising, window and store displays, coupons and literature. Promotions are especially necessary for retailers starting new businesses.

Pack Your Ads with Selling Punch

Here are some tips you can use when you begin to work up your advertisements. When properly followed they will help inject selling punch into your advertising.

Make your ads easy to recognize. Give your copy and layout a consistent personality and style.

Use a simple layout. Your layout should lead the reader's eye easily through the message from the art and headline to the copy and price to the signature.

Use dominant illustrations. Show the featured merchandise in dominant illustrations. Whenever possible, show the product in use.

Show the benefit to the reader. Prospective customers want to know "what's in it for me". But, do not try to pack the ad with reasons to buy - give the customers one primary reason, then back it up with one or two secondary reasons.

Feature the 'right' item. Select an item that is wanted, timely, stocked in depth, and typical of your store. Specify branded merchandise and take advantage of advertising allowances and co-operative advertising whenever you can.

State a price or range of prices. Don't be afraid to quote high prices. If the price is low, support it with statements which create belief, such as clearance or special purchase.

Include store name and address. Double check every ad to make sure it contains store name, address, telephone number and store hours.

The Only Purpose Is To Sell

If you try to be clever, humorous, or subtle in your advertising, you handicap its objective which is to help you sell your products. The elements of good copy are sometimes summarized in the term: AIDCA. This is, attract Attention, develop Interest, Describe the product, Convince the reader and get Action.

For effective copywriting, make each word count. Avoid unnecessary words. Keep sentences short. Put action in your words. Use terms your readers will understand. Don't use introductions, get right to the point of your message. Make use of imaginative ideas, variety, or colourful references only when they do not interfere with or slow your sales message.

Observe the advertisements of the major stores in metropolitan cities; they convey a world of informative suggestions to retailers who cannot afford the services of advertising agencies.

Do not advertise something you are 'stuck with'. If customers did not want the item previously, no amount of advertising will sell it. Your best results will come when you advertise items that your customers prefer and like to buy from you.

The purpose of advertising is to get traffic into your store. A highly desirable item featured in your ad will bring in this traffic. Then, the customers may buy other items if you have them properly priced and displayed.

The Growing Power of Consumer Protection

The small retailer must be more and more concerned with the effect of consumer protection regulations. Regulations on advertising are now being made at Federal, Provincial and local levels.

Nationally, the Fair Business Practices Branch of Industry Canada (1-800-348-5358 or compbureau@ic.gc.ca) is among the various regulatory bodies which control the advertising practices of the large corporations. At the retail level are such mechanisms as provincial departments of consumer affairs and the Better Business Bureaux (306-352-7601 or bbbsask@accesscomm.ca).

Among the regulations of the greatest importance to retailers are those concerning the use of false or misleading advertising resulting in 'bait-and-switch' practices. Advertising is a very visible or audible medium, easily subject to supervision and criticism from both legal and consumer standpoints. You should use care in making statements and claims for the products you advertise. Be sure that they conform to the various provincial and federal regulations and the standards of good taste.

Advertising should be viewed as a sales building investment and not simply as an element of business expense. When it is well planned and well carried out, your advertising can be an important factor in the future growth of your business.

Source: U.S. Small Business Administration

IMPROVING PERSONAL SELLING IN SMALL RETAILER FIRMS

Summary

Good personal selling in retail stores is hard to find today. The small retailer who works at building a good personal selling effort will develop a valuable competitive edge over large competitors.

The basic elements for developing a program to improve personal selling in your store is discussed in this publication. If you are willing to develop your own program based on the framework and examples presented, your personal selling program will be a more effective and rewarding one.

Good personal selling in retail stores is getting harder and harder to find today. This is particularly true in the large multi-unit retail establishments that have increasingly stressed self service at the expense of good personal selling.

The de-emphasis of personal selling by large scale retailers leaves a gap in customer service that the small retailer is in a good position to fill. By emphasizing good personal selling, the small retailer can gain a competitive edge not easily matched by the bigger stores. It is much easier for your large competitors to dominate in such areas as merchandise assortments, pricing, and advertising, than to provide a well developed personal selling effort.

Good personal selling, however, does not automatically occur simply because the retail store is small. Nor does high quality personal selling result merely by paying sales people more money. Rather, good personal selling results from a carefully developed program which accounts for the major elements necessary in all successful personal selling programs.

This publication discusses a basic framework for such a program as it applies to personal selling in small retail stores. By patterning your own program for improving personal selling along the lines suggested in this publication, you are likely to improve the quality of personal selling in your store.

Good Personal Selling

Before discussing the framework for improving personal selling, let's define good personal selling at the retail level.

Personal selling in retailing is essentially a matching of the customers' needs with the retailer's merchandise and services. In general, the more skilfully this match is made the better the personal selling. If salespeople make a good match not only is a sale made but a satisfied customer is created (or maintained). Thus, a long term, profitable relationship can be established.

In the illustration below the salesperson is pictured as an individual attempting to match the needs of customers to the retailer's merchandise and services. If the match is made effectively, the salesperson is more likely to make the sale and satisfy the customer who will continue to patronize the retailer. The illustration suggests that their are three basic skills needed by salespeople to make this match effectively.

Has The Salesperson Made A Good Match?

Retailer's Merchandise ----→ Needs of Customer -----→ Satisfied Customer -----→ Sale is Made -----→ Continued Patronage

- Salespeople must be skilled at learning the needs of the customer.
- They must have a thorough knowledge of the merchandise and services offered by the retailer.
- They must have the ability to convince the customers that the merchandise and service offered by their store can satisfy the customer's needs better than that of their competitors.

A Program for Improving Personal Selling

Developing a program for improving these three basic selling skills in your salespeople is the essence of building a better personal selling effort for your store. The framework for the program consists of three basic elements:

- Selecting people who are suitable for particular sales positions
- Providing training
- Devising an appropriate compensation plan.

- Selection

  Finding good salespeople is a problem for both large and small retailers. Both are frequently heard talking about how hard it is to find 'good' people. What they fail to realize, however, is that much of the problem is of their own making because they do not define clearly what they meant by good sales people. In short, these retailers do not specify what qualities they want in the salespeople they are seeking. It is no wonder then that they are not satisfied with many of the people whom they hire.

  An effective way to help avoid this problem is to use job specifications. This device has been used successfully for many years by large industrial firms. And, it can be used with equal effectiveness by small retailers. A job specification is basically a written statement, typically no longer than one or two paragraphs, delineating the requirements for a particular job. For example, a job specification for a retail sales position in a sporting goods store might appear as follows:

  An Example of a Job Specification for a Sales Position in a Retail Sporting Goods Store

  - *Type of Job*

    Retail Sales of Sporting Goods

  - *Requirements of the Job*

    This job involves mainly in-store sales of full line of sporting goods ranging from items of low unit value (such as golf balls) up to higher priced merchandise (such as complete sets of golf clubs and skiing equipment. The emphasis is on big ticket items. Telephone follow up selling is expected and there is occasional stock work.

  The value of the job specifications is that it forces the retailer to be more explicit about what the job requires and thereby provides a guide for appraising the capabilities of prospective employees. For example, since the job discussed above emphasizes the big ticket items, the retailer should look for people who have this kind of experience. There are many instances of salespeople who can do an excellent selling job on low unit value merchandise but have trouble closing sales on the big ticket items. Job specifications help to avoid such problems.

- Training

When the word training is mentioned, the small retailer typically associates this with the formalized programs conducted by some large department stores and national chains. However, sales training by the small retailers does not have to be, nor should it be, a formal and structured program. Actually, any conscious effort the retailer makes aimed at improving the three basic skills needed for effective retail selling is a form of sales training.

To get you on the road to thinking about the kinds of approaches you might use, here are several examples of sales training methods used by some small retailers.

An excellent method for developing a salesperson's skills at learning customer needs is through role playing. Role playing consists of acting out the customer-salesperson relationship by the salespeople. One person plays the part of the customer, and the other plays the part of the salesperson. Next time around, they reverse the roles. Role playing enables salespeople to see various sales situations from the customer's point of view. The skill necessary to quickly 'size up' customers (learn about their needs) is rapidly sharpened through role playing. A particularly good time for you to try out this method is during slow periods when your salespeople are just 'standing around' anyway.

A good approach for improving the second skill -- knowledge of the merchandise and services -- is to make use of regularly scheduled sales meetings. Such meetings offer an excellent opportunity to discuss the features of a new product, changes in store policies, new merchandising strategies, or other matters relating to the store's merchandise and services. These sales meetings do not have to be formal and precisely scheduled events. Instead, you can conduct them right on the sales floor during slack periods or shortly before the store opens for business.

What is important is that you hold these sales meetings regularly and frequently (one per week at a minimum) and that each meeting has a specific theme or focus. For example, at one meeting you might want to discuss the features of a new line of products which the store is now carrying and how to introduce these to the customer. The next meeting might focus on changes in the store's merchandise returns policy. The meeting after that you might talk about the sales strategies for the upcoming inventory clearance sale. If you hold these meetings regularly, you will be pleasantly surprised at how much better informed your salespeople will be about the store's merchandise and service offerings.

Training aimed at improving the third skill -- the ability to convince customers that a store's merchandise and service offering is superior -- is perhaps the most difficult. Some people believe that an individual either has this skill naturally or does not, and hence training makes little difference. While there may be some degree of truth in position to the extent that people do differ in their natural communication abilities, training can still make a difference. Such training can range from encouraging your salespeople to take a formal course in salesmanship to informal sales seminars which you can organize at your store. These seminars may be nothing more elaborate than sitting down with your salespeople for a half hour over a cup of coffee to discuss ways by which your store's merchandise and service offering can be better communicated to customers.

These sessions, if conducted informally (but regularly), will foster a constructive interchange of ideas about selling. For example, one salesperson might have developed a good argument which he or she used to successfully close a sale when it looked like the customer was ready to walk out. Good salespeople do like to talk about and share their success stories and can contribute to a sales development program.

- Compensation

Unfortunately there is no one best way of compensating retail salespeople. Compensation plans depend upon the type and size of store, the number of employees, and the policies of the firm. There is however, a general principle that should be observed in any type of compensation plan. This is that compensation should be closely linked to performance.

The key to gaining a real understanding of the principle and being able to apply it to your compensation plan is in how you define performance. Performance does not mean simply sales volume. While the importance of sales volume cannot be over emphasized, other factors such as providing information to customers (which can lead to future sales), creating goodwill for the store through friendly and courteous service, and a willingness to help out in non-selling tasks are also important and should be rewarded. Failure to recognize these other aspects of performance is a mistake made by many retailers. Hence, they tend to reward only the salespeople who make the most sales and neglect others who have acceptable sales volumes but do a better job in other aspects of performance. Of course, if a salesperson does well in non-selling work and not in sales, this weakness must be dealt with through increased sales training.

Thus, if you feel that your salespeople are doing a good job, regardless of the volume they produce, let them know it. See if you can devise a way of reflecting your appreciation in their compensation. One retailer developed a rather ingenious approach using repeat business as a reflection of customer goodwill. This retailer developed an increasing schedule of commissions for sales to the same customer. This encourages the salespeople to treat customers right so that they would come back and ask for them by name. With some careful thought you can develop your own plan to more effectively reward good personal selling performance.

Source: U.S. Small Business Administration

SETTING THE RIGHT PRICE

Setting the right price can influence the quantities of various items that consumers will buy, which in turn affects the total revenue and the profit in the store. In the end, the right price for the product is the price that the consumer is willing to pay for it. Hence, correct pricing decisions are a key to successful retail management. Systematic and informed decisions regarding pricing strategies must be made while considering a wide range of issues.

A major step toward making a profit in retailing is selling merchandise for more than it has cost you. The difference between the cost of the merchandise and the retail price is called the mark-up. These are the dollars that are now available to pay the operating expenses of the business. When establishing the markup on a product, two points should be noted:

- The cost of the merchandise used in calculating mark-up consists of the base invoice price for the merchandise plus any transportation charges minus any quantity and cash discounts given by the seller.
- Retail price, rather than cost, is ordinarily used in calculating percentage mark-up. The reason for this is that when other operating figures such as wages, advertising, and profits, are expressed as a percentage, all are based on retail price rather than on the cost of the merchandise being sold.

The following points will highlight issues that should be considered:

Target Consumers and the Retailing Mix

In this section, your attention is directed to price as it relates to your potential customers.

- Is the price of this item very important to your target consumers? You need to know your customers' desires for different products and whether price is an important issue in their purchasing decision?
- Have you established a price range that people will pay for the product? What is the high and low price that the merchandise will have to fall within for someone to buy?
- Have you considered what pricing strategies would be compatible with your store's overall retail marketing mix, which includes merchandise, location, promotion, and services?
- Will trade-ins be accepted as part of the purchase price on items such as appliances and television sets?

Competitor Considerations

This set of questions looks outside your firm to the competitive factors that you cannot directly control.

- Do you know what your direct competitors are doing price wise?
- Do you regularly review competitors' ads to obtain information on their prices?
- Do you do comparison-shopping of competitors to obtain information on their pricing strategy?
- Have you considered how your competition will react when you enter the market place, and how you will deal with their reactions?

A Price Level Strategy

Selecting a general level of prices while considering the competition is a key strategic decision.

- Should your overall strategy be to sell at the prevailing market prices or do you want to work at an above-the-market or below-the-market strategy?
- Should competitors' temporary price reductions ever be matched?
- Could private-brand merchandise be obtained in order to avoid direct price competition?

Calculating Planned Initial Mark-up

In this section, you will have to look inside your business, taking into account sales, expenses, and profits before setting prices. The initial mark-up must be large enough to cover anticipated expenses and reductions and still produce a satisfactory profit.

- Have you estimated sales, operating expenses, and reductions for the next selling season?
- Have you established a profit objective for the next selling season?
- Given your estimated sales, expenses, and reductions, have you planned initial mark-up? The initial mark-up percentage is calculated by adding the operating expenses, planned reductions (mark-downs, stock shortages, and employee/customer discounts), and profits together, and then dividing this total by net sales and planned reductions.
- Different initial mark-up figures may have to be used for various lines of merchandise or services, particularly when different lines have different characteristics than others.

Store Policies

In this section, overall store policy and the message that you want to convey will be considered.

- Setting the price must be compatible with your established store policies and your desired image.
- Will a one-price system, under which the same price is charged to every purchaser of a particular item, be used on all items or is the price negotiable with the customer?
- Will odd-ending prices such as $1.99 and $44.95, be more appealing to your customers than even-ending prices?
- Will consumers buy more if multiple pricing, such as 2 for $8.50, is used?
- Should any loss leader product pricing be used?
- Will price lining, the practise of setting up distinct price points and then marking all related merchandise at these points, be used?
- Would price lining by means of zones be more appropriate than price points?
- Will prices include applicable taxes for customer convenience?

- Will cent-off coupons be used in newspaper ads or mailed to selected consumers on any occasion?
- Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image you are seeking?
- Has the impact of various sale items on profit been considered?
- Will "rain-checks" be issued to consumers who come in for special sale merchandise that is temporarily out of stock?

Nature of the Merchandise

In this section you will consider how selected characteristics of particular merchandise affect planned initial mark-up.

- Did you get a "good deal" on the wholesale price of the merchandise?
- Is this item at the peak of its popularity?
- Are handling and selling costs relatively great due to the product being bulky, having a low turnover rate, and requiring much personal selling, installation, or alterations?
- Are relatively large levels of reductions expected due to mark-downs, spoilage, breakage, or theft?
- Will customer services such as delivery, alterations, gift wrapping, and installation be free of charge to customers?

Other Considerations

- Are additional mark-ups called for because wholesale prices have increased or because the item's low price causes consumers to question its quality?
- Should purchase discounts to special groups be given?
- When mark-downs appear necessary, have other alternatives been considered first (i.e., merchandising out of the problem)?
- Has an attempt been made to identify the cause of mark-downs?
- Has the relationship between timing and size of mark-downs been taken into account?
- Would a schedule of automatic mark-downs after merchandise has been in the stock for specified intervals be appropriate?
- Is the size of the mark-down "just enough" to stimulate purchases?
- How is the seasonality of products allowed for?

MARKUP AND MARGIN

What is the difference?

Mark-up is a percentage of the cost.

Margin is the same dollar amount as mark-up, but expressed as a percentage of the selling price.

Example

Item costs $1.00; Item sells for $1.50.

Mark-up is .50 or 50% of the cost.

Margin is .50 or 33 1/3% of the selling price.

Margin vs. Mark-up Comparison Chart

Margin % of Selling Price	Mark-up % of Cost	Margin % of Selling Price	Mark-up % of Cost	Margin % of Selling Price	Mark-up % of Cost
4.8	5.0	22.0	28.2	37.5	60.0
5.0	5.3	23.0	29.9	38.0	61.3
6.0	6.4	23.1	30.0	39.0	63.9
7.0	7.5	24.0	31.6	39.4	65.0
8.0	8.7	25.0	33.3	40.0	66.7
9.0	9.9	25.9	35.0	41.0	69.5
9.1	10.0	26.0	35.1	41.2	70.0
10.0	11.1	27.0	37.0	42.0	72.4
11.0	12.4	28.0	38.9	42.9	75.0
12.0	13.6	28.6	40.0	43.0	75.4
13.0	15.0	29.0	40.8	44.0	78.6
14.0	16.3	30.0	42.9	44.4	80.0
15.0	17.6	31.0	45.0	45.0	81.8
16.0	19.0	32.0	47.1	45.9	85.0
16.7	20.0	33.3	50.0	46.0	85.2
17.0	20.5	34.0	51.5	47.0	88.7
18.0	22.0	35.0	53.8	47.4	90.0
19.0	23.5	35.5	55.0	48.0	92.3
20.0	25.0	36.0	56.3	48.7	95.0
21.1	26.6	37.0	58.7	49.0	96.1
				50.0	100.0

UNDERSTANDING AND DEVELOPING YOUR SALES FORCE

Summary

An important ingredient in the successful retail or service business is good selling. Without it, many sales are lost-sales that may mean the difference between success and failure. This publication tells how you can train yourself and your employees to become creative sales people.

To many customers, the salesperson is the business. Therefore, if the sales personnel are bad, then so is the firm. Although important to all businesses, effective sales personnel are especially important to small businesses to compete with the big firms on things like assortment, price, and promotion. Selling effort is one place where the small product or service retail business can compete with larger competitors -- and win.

Effective selling does not happen by accident. The small entrepreneur must work to achieve a high level of sales effectiveness in his or her business. In order to work toward this goal, the business person should be aware of the different types of salespersons, the selling process, and the attributes of effective salespersons. Applying such knowledge to a business situation should result in the desired goal of effective sales personnel -- the competitive advantage.

Types Of Salespersons

There are three main types of sales personnel: (Classified by Level of Creative Effort)

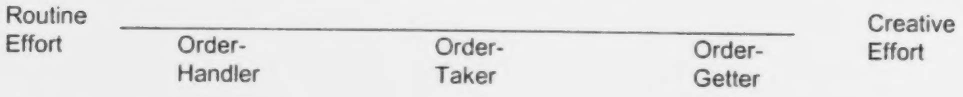

Figure 1. Types of Retail Sales Personnel

- Order-Handler

  The ticket-taker at the concert, the checker at the food store -- these salespeople are working in a routine selling environment. But due to the nature of their jobs, they will be asked numerous questions by customers as well as hear complaints about prices and service. A knowledgeable person with a pleasant personality is especially needed for this job because this is usually the person who is dealing with the customer when the customer's money (payment) is received.

- Order-Taker

  As noted above, more creativity is found in this job as compared to the order-handler. The counter attendant at the fast food restaurant may take the order and then suggest that the customer might also wish to buy a hot apple turnover. Pleasant personality, fast service, and suggestive selling on the part of the order-taker can result in many additional sales.

- Order-Getter

  For many businesses, the heart of the selling process rests with the creative selling efforts of their salespeople. Of course, one of the greatest problems is that there are numerous order-handlers and order-takers in selling positions that should have order-getters for optimum selling effectiveness. Clothing, furniture, jewellery, and appliances are just some of the many items that call for order-getters (a person who can handle a transaction, take an order, and most importantly, get an order). As for services, the home security salesperson, for example, who calls on a prospect because it is observed that the house has no dead bolt locks, is making that special effort to be an order-getter.

  Even though all selling situations do not call for order-getters, all salespeople will be called upon to sell creatively from time to time. It is for this reason that all sales personnel need to have a working knowledge of the creative selling process.

Creative Selling Process

The creative selling process consists of eight steps, none of which is less important than any other if the process is to be effective. It should be emphasized to all employees that all steps are vital to the achievement of all effective selling.

- Pre-Customer Contact

  A smart builder would not attempt to build a house without a good foundation. Likewise, a business person should not place people on the sales floor or telephone until these people know the business, merchandise, services, and customers. Before any contact is made with the customer, every salesperson should know:

  Policies, Procedures, and Rules. Have these in writing for all employees to see and know.

  Operation Of Equipment. No matter whether the register is electronic or mechanical, the time to learn how to work it is not after a sale while the customer waits for change.

  - *Target Market Knowledge*

    The better salesperson knows something of the likes and dislikes of the firm's primary customers. The business operator should tell all sales personnel about the business' customers and their life-styles. Tell the salespeople about customers' interests and ability to buy.

  - *Product Knowledge*

    A salesperson gains confidence by knowing about the products and services he or she is selling. If a person sells shoes, it helps to know the merchandise as well as how to fit them. If a person sells building materials, the selling job is probably more effective if the salesperson can also help answer questions about home repairs.

    It helps the person who sells clothes to know something about fabrics and current fashions. If the person is in the lawn service business, that person should know about lawn care. Most sales personnel will not take the initiative to acquire product knowledge. Management should make such knowledge available to them.

- Prospecting

  Although not appropriate to every selling situation, prospecting should be used whenever possible. Essentially, prospecting involves not waiting for the customer to show up at a store or to phone about a service. It is concerned with taking the initiative by going to the customer with a product or service idea. Prospecting may be two types: new or regular customer prospecting.

  - *New Customer Prospecting*

    A salesperson sees that a person is getting married. Action is taken on this knowledge by contacting the person and telling her about appropriate items (or services) that might be of assistance to a new bride. By using newspapers and personal contacts, a salesperson can take the initiative to contact and create new customers.

  - *Regular Customer Prospecting*

    A firm's best prospects are its current customers. A salesperson should make a practice of calling regular customers on a periodic basis to tell them about products or services. "Hello, Mrs. Anderson, I just wanted to tell you about the new shipment of dresses that we received today. As I unpacked them, I saw several that made me think of you." Prospecting with regular customers works! All salespeople should be encouraged to prospect by phone and in-person whenever they see regular customers. A word of caution must be emphasized. Don't go to the well too often. Prospecting with the same regular customer on a frequent basis can make prospecting lose the special feeling that it can create in customers. Do not overuse it.

- Initial Contact

  The most effective way to close a sale is to open it on a positive note. Unfortunately, most sales do not open this way. The typical initial store contact begins in this manner:

  Clerk: "May I help you?"
  Customer: "No thank you, I'm just looking."

  This ritual leaves much to be desired. Why? It is an automatic statement that shows no creativity on the part of the salesperson. Also, because the customer has heard the statement many times, his or her response is usually given without thinking what was said. Every salesperson should be challenged to treat each customer as an individual by responding differently to each customer.

  Initial contact also means responding to customers when they enter the sales areas even when they cannot be waited on immediately. Salespeople should be instructed to tell waiting customers that "I'll be with you in a moment." Such actions will reduce the number of customers who leave without being served. When the employee is free to help the waiting customer, the initial comment should be "Thank you for waiting." A courteous, creative initial contact with the customer can go a long way to promote sales.

- Presentation of Merchandise

  In presenting merchandise (or service) to the customer, the salesperson should use product knowledge to the best advantage. How?

- *Buyer benefits*

  Although it is good to talk about the lawnmower's 3 1/2 horsepower motor, customers may be more interested in hearing about how fast the lawnmower will cut the grass. Product knowledge is important, but the salesperson must remember what makes the customer buy. Clothes may be made of durable fabrics but it is also important to stress the implied benefit that they will also appeal to the opposite sex. Sell benefits!

- *Customer Involvement*

  Product knowledge can be used to get customer involvement. Show the customer several features of the digital watch and then have the customer put it on and work it.

  If the interest is there, it will be hard for the customer to take off the watch so that the salesperson can put it back into the case. The best way to present many products is to get involvement. Want to sell dance lessons? Get the customer on the dance floor and let the fun of dancing do some of the selling. The same is true with clothes, perfume, sports equipment, and almost anything else.

- *Limit the Choices*

  If during the sales presentation more than three items are in front of the customers, the chances of a sale are reduced while the possibility of shoplifting is increased. If, for example, the salesperson continues to carry dresses into the fitting room for the customer to try without removing any, the customer will likely not buy any because of the inability to decide from among so many choices. Also, with so many items under study, the clerk may lose track of how many items are in the fitting room. It is possible that some may be put on under the customer's clothes while the clerk is not present, thereby resulting in an expensive experience for the store. Likewise, if a travel agency attempts to sell a customer a Caribbean cruise, the chances of making the sale will diminish if too many trip options are presented. Unless there is a definite reason for an exception, the rule of three (never show more than three choices at one time) should be followed whenever merchandise is presented. Limited choices have been found to promote sales.

- *Use Showmanship*

  In presenting merchandise to the customer, encourage all personnel to be creative. Be enthusiastic about the merchandise. Hold the necklace up for the customer to see it. Make the portable baby crib 'look' easy to work. Lay the different pieces of the cookware set before the customer in an attractive, easy-to-see everything manner. Ask your salespeople to think like a customer. If I were a customer, what would I like to see?

- *Message Adaptation*

  A knowledgeable salesperson should know about the products being sold. Message adaptation involves deciding what information is needed to sell a particular customer and how that information should be presented to that customer. Canned sales presentations do not allow for adaptation. The effective salesperson will make an effort to adjust the presentation to the customer.

If the customer knows about gardens and lawns, the person selling a lawn service should adapt the sales presentation to the level of the customer's expertise. Do not bore the customer with known facts. It could lose a sale.

- Handling Objections

Remember, if objections are present, progress is probably being made on the sale. Most salespeople are afraid of objections. Stress to all employees that objections are a natural part of the selling process. They do not mean that the sale is lost. In most cases, all that is required to overcome an objection is more selling on the part of the salesperson.

Common types of customer objections that are faced by a salespersons are:

Product: "That dress looks out-of-date."
Store: "You never have the right merchandise."
Service: "If I believe what I hear, I can't get good service from you."
Price: "It is just too expensive."
Salesperson: "Are you sure these shoes fit right?"

These and other objections can be met by the salesperson in several ways. Using the above product objection as an example, these methods include:

- *Yes-But:* "Yes, it does look out-of-date, but it is the latest." This approach begins on a positive note by agreeing with the customer and then moves on to answer the objection.

- *Counter-question.* "Why do you feel it's out-of-date?" the counter-question puts the ball back in the customer's court. By asking "Why?" the real reason of the objection may become known.

- *Restate Objection.* "You feel that the dress looks out-of-date." By restating the objection, the customer may respond by saying, "No, I mean it just doesn't look right on me," or something of a similar nature.

This approach tends to reduce the magnitude of the objection in the eyes of the customer.

- *Direct Response.* "The dress you have on was first shown at the market this season. It is the latest thing." Although offensive to some, this approach may be necessary if the customer is not going to buy unless the untruth can be corrected. Tact is important when using this approach.

These four approaches for handling objections are not meant to be all-inclusive. These and other approaches do point out, however, that objections should and can be answered by the salesperson. Unless objections are overcome to the satisfaction of the customer, it is questionable that the sale will be made.

- Closing the Sale

In various ways, the salesperson can assist the customer by helping him or her to make the buying decision. Closing techniques that can aid in this effort include:

- *Offer a service.* "Let us deliver it to you this afternoon." A "Yes" implies purchase.

- *Give a Choice.* "Do you want the five-piece or eight-piece cooking set?" Either choice implies purchase. Note that "No" was not one of the choices.

- *Offer an Incentive.* "If you buy now, you get 10% off the already low price." If you wait, you don't get the 10% discount.

- *Better Not Wait.* "If you want this refrigerator, better get it now. It's the last one in stock." Note: it pays to be honest. If the customer buys and then comes by the store the next day and sees that the store did have another one, this closing technique may have made the sale but it could lose the customer.

- Suggestive Selling

  The customer has made a purchase. Now what? Encourage your sales personnel to make a definite suggestion for a possible additional sale. For many businesses, sales can be increased by 25 percent through positive suggestive selling. Please note that statements such as "Will there by something else?" or "Can I get you something else?" are not suggestive selling. They do not make a positive suggestion. When a customer buys a lamp, what about a light bulb to go in it. If a picture is purchased, what about the necessary hardware to hang it properly? If a suit is bought, what about a new blouse or shirt that goes well with the colour? Where appropriate, the creative salesperson will actually get the suggested item and show it to the customer. Or if a person brings in a watch to be repaired, why not also clean it while it is taken apart? This type of initiative usually results in more sales. It should be emphasized that most customers like to receive a valid suggestion. In some cases, suggestions may even permit the customer to avoid another shopping trip to pick up that needed item that they had not thought about. Good suggestive selling makes sales and builds confidence in the firm's business.

- Sales Follow-up

  Although not apparent to many salespeople, follow-up is a part of every sale. The closing statement, "Thank you for shopping at (name of store)," is a form of sales follow-up if done with enthusiasm. Unfortunately, just making the statement in an automatic manner is about as effective as the other worn out phrase, "May I help you?" If done correctly, however, it allows the customer to leave on a positive note, thereby increasing the chances of repeat business by the customer.

  Follow-up may also concern itself with checking on anything that was promised to the customer after the sale. If delivery is supposed to take place on Friday, the salesperson will check to make sure that the promise will be met and, if not, will notify the customer of the problem. Good sales follow-up will prevent the type of situation that occurs so often when the customer calls on Friday asking, "Where is the delivery truck?" A business with a reputation for sales follow-up is going to obtain additional business because of its concern about the sale.

  Sincere sales follow-up is good business. Imagine the impact that can be had on a customer when the carpet cleaning service telephones the customer 48 hours after cleaning her carpets to be sure that everything is satisfactory. Sales follow-up builds goodwill and repeat business.

Attributes Of A Creative Salesperson

In addition to having personnel who understand and apply the creative selling process, an organization should try to have salespeople who possess certain attributes that can make them more effective in their jobs. These attributes, which can be grouped into mental and physical categories, merit further discussions.

- Judgement

Common sense, maturity, intelligence -- these and other terms are used interchangeably with judgement. A salesperson knows that is does not pay to argue with a customer. The salesperson also knows that the firm should never be 'cut' in front of customers. These situations reflect the use of good judgement on the part of the employee. Please note that the term maturity is sometimes used in place of judgement, but that it is not necessarily a function of age. Many older people do not use good judgement while some younger employees have a high level of common sense.

- Tact

If an employee has a keen sense of what to say and do, many problems can be overcome before they are created. Many employees give little thought to the impact of their actions. A child playing with toys in the toy store is told in a blunt manner to "quit playing with the toys and go find your mother." While all this is going on, the mother is standing behind the salesperson. Was a confrontation with the child necessary? No. Could it have been handled differently? Yes. How do the child and mother feel about the store? The feeling is not good. This salesperson lacked the ability to know what to do and say in order to maintain good customer relations. Be tactful.

- Attitude

A good salesperson will have a positive attitude toward customers, merchandise, services, and the business. A good attitude means that an employee is willing to accept suggestions, to learn and to apply the steps in the creative selling process, and to not be afraid of work. A salesperson with a bad attitude can create unnecessary problems. A bad attitude is contagious. If an employee is otherwise competent, management should work with the employee to develop a positive attitude. Positive attitudes can result in sales.

- Selected Physical Attributes

To be a success, the salesperson must physically belong to the firm's particular environment. Personal appearance and personal hygiene are important in the selling environment. In terms of personal appearance, a slim salesperson would be more appropriate than a larger person in a sales position at a health spa. Equally important in terms of personal appearance is a clothing salesman who wears last year's clothing. He will have difficulty in selling the latest fashions to his customers. Personal appearance does count in the selling equation.

As for personal hygiene -- body odour, bad breath, dirty hair, soiled clothes, scuffed shoes, and un-kept hands are all reasons why a sale may be lost. Obviously, be tactful when handling the problem of personal hygiene. An observant owner-manager should keep a watchful eye out for hygiene, problems among the staff and, when necessary, counsel the offending employee in private about improving his or her appearance. If you don't feel physical attributes are important, ask yourself if you would like to buy low-calorie health foods from an overweight salesperson with body odour. Sound funny? It isn't! Your customers will usually react unfavourably to this and similar inappropriate selling situations.

- Word of Caution

  Mental and physical attributes of salespersons are important. Management must continue to observe sales personnel in regard to the desired traits. Either mental or physical attributes of individuals may change over time relative to desired attributes.

  Management must be aware of this possibility and attempt to correct any deviations from desired norms before problems are created.

  A business can enhance its probability of success by stressing the creative selling process and giving special attention to the desired mental and physical attributes of a creative salesperson. Good creative selling can provide the competitive edge.

Source: U.S. Small Business Administration

MEASURING SALES FORCE PERFORMANCE

Summary

Owner-managers who have to be their own sales managers have the problem of measuring the performance of each of their sales representatives. Their tasks are complicated because of the many criteria that can be used.

This publication presents a method that is workable and effective. It discusses the development of benchmarks that will allow a sales representative's performance to be measured in numbers that are profit-oriented.

Some owner-managers find it difficult to measure the performance of sales representatives because representatives vary, customers vary, and business conditions vary. This publication is a conversation between a consultant who specializes in sales representative incentives (**C**) and an owner-manager (**OM**). As their discussion opens, the consultant is pointing out:

C: Fortunately, your competitors face the same variables you face. But tell me, why do you want to measure the performance of your sales force?

OM: I heard recently that industrial sales can average as much as $75 a visit. I don't want to spend that kind of money unless it's a good investment.

The Measurement Problem

C: Here's a list that I call "Sound Criteria for Measuring Performance?" (See Exhibit 1)

OM: From the question mark at the end of the title I gather that not all of the 12 are sound criteria?

C: Right, first, let's look at some of the common errors that owner-managers make in measuring the performance of their sales representatives.

OM: I'm willing to listen.

Exhibit 1

Sound Criteria For Measuring Performance?

Which of the following are sound criteria for measuring the performance of sales representatives?

1. Volume of sales in dollars.
2. Amount of time spent in office.
3. Personal appearance: for example, clothes, hair, cleanliness and neatness.
4. Number of calls made on existing accounts.
5. Number of new accounts opened.
6. Completeness and accuracy of sales orders.
7. Promptness in submitting reports.
8. Dollars spent in entertaining customers.
9. Extent to which sales representative sells the company.
10. Accuracy in quoting prices and deliveries to customers.
11. Knowledge of the business.
12. Planning and routing of calls.

C: Usually owner-managers make one of the five following errors: They evaluate their sales representatives primarily on the basis of sales volume. Secondly, they rely too much on the number of sales calls made by each of their sales representatives. They compare each sales representative's present sales results with past sales for a corresponding period - for instance, May of the current year against May of last year. Moreover, they expect their sales representatives to follow explicitly the selling methods that worked for them when they were selling. Or they give their sales representatives too much freedom.

OM: That's interesting, but not clear. What do you mean? Would you explain each point? For example, what's wrong with evaluating my sales force in terms of their sales volume?

C: Usually, sales volume by itself won't tell you how much profit or loss you're making on each sales representative. Unless you know this fact, a sales representative can cost you money without your realizing it. For example, one small manufacturer was losing money until he analyzed the profitability of the sales volume brought in by each member of the sales force. He found that one of them created a loss on almost every order. This representative was concentrating on a market that had become so competitive that mark-ups had to be drastically reduced to make sales.

OM: Assume that I have an adequate mark-up on my sales. Isn't performance then largely a matter of how many calls each of my sales representatives makes to get the business?

C: Of course making calls on customers and prospects is important, but a sales representative should make calls on accounts in relation to their sales and profit potential.

OM: It sounds to me as though you're questioning if sales representatives should get in the habit of making regular calls on their accounts.

C: If your sales force is more responsible for servicing their accounts than selling their accounts, then a regular routine of calls may be okay. But paying sales representatives to do routine pick-up and delivery, for example, can be expensive.

OM: How about comparing a sales representative's current performance with the past?

C: That can be very misleading. Some months have more working days than others. Changes in products, prices, competition, and assignments make comparisons with the past unfair, sometimes to the sales representative, sometimes to you. It's much better to measure cumulative progress - quarterly, semi-annual, or annual results - toward goals.

OM: Why not evaluate a sales representative's selling methods?

C: You should if a sales representative violates company policy or doesn't accomplish goals. But why criticize a sales representative for spending too much time in the office if that brings in profitable orders by telephone or by mail?

OM: I suppose owner-managers who've had sales experience themselves expect their sales representatives to use the same selling methods that worked for them - even if they don't realize it.

C: It's natural that they would. But it's often unfortunate. Market conditions change or the sales representative faces different problems. I know of one good sales representative who's basically an introvert - avoids socializing whenever possible. This representative's boss is an extrovert and can't understand this.

OM: What about owner-managers without sales experience? Do they face any special problems in measuring the performance of their sales forces?

C: They surely do. They often give their sales representatives too much freedom. Their knowledge of selling is limited. Often they don't know what they should really expect from their sales representatives.

Benchmarks for Measurement

OM: Okay, now I understand what you meant by the five errors that owner-managers make. But I'm confused about all the so-called criteria in your Exhibit 1. Are any of them usable for measuring the performance of sales representatives?

C: Yes. Some of them are excellent. The trick is to use the benchmarks that can be expressed in numbers. The best ones in Exhibit 1 are items 1, 4, 5, and 8.

OM: I can see that item 1, "Volume in sales dollars," and item 4, "Number of calls made on existing accounts," can be expressed in numbers.

C: Right. And also item 5, "Number of new accounts opened," and item 8, "Dollars spent in entertaining customers." All four of these items are especially good when they are accompanied with target dates such as month-end, quarter-end, or year-end.

OM: This is beginning to look good to me.

C: Fine. But I believe there are better criteria than those we've been talking about.

OM: I'd like to hear about them. But first, what about the other items shown in Exhibit 1?

C: The other items can affect a sales representative's performance. That means you may have to make judgements in these sales. I would hope your judgement would be made after you give the most weight to the items that can be measured in numbers . . . .

Planning, Measuring and Correcting

.....But there's more to sales performance than merely compiling sales figures.

OM: What else is there to do after performance has been measured?

C: Actually, the answer to that question is planning for better performance in the future and correcting past performance with which you are not satisfied. You do this by finding out what profit contribution each sales representative makes.

OM: But what do you mean by profit contribution?

C: Oh, I'm about to get ahead of myself. First, let's look at this guide for planning, measuring, and correcting a sales representative's performance. (See Exhibit 2)

OM: It looks good. I like the breakdown into three sections.

C: Right. But to answer your questions about profit contribution - it's a term I use to designate what's left in the sales dollar after you subtract direct costs and a sales representative's controllable costs.

OM: Mark-up?

C: Yes, but the important thing is to keep your eye on what the sales representative does to it. Suppose, for example, that one of your sales representatives makes a $1,000 sale. If your direct material and direct labour total $600, you would give him or her credit for a $400 contribution to profit.

OM: If I allow my sales representatives to cut the price, and they cut it each sale by $50, they would contribute only $350 per sale to profit - toward my overhead, selling expense, and so on.

Exhibit 2

Guide for Improving a Sales Representative's Performance

One goal of measuring a sales representative's performance is improvement assistance. The three steps in bringing about improvement when it's needed are: planning, measuring, and correcting.

Planning

Get the sales representative's agreement about goals to attain or exceed for the next year:

- Total profit contribution in dollars.
- Profit contribution in dollars for: Each major profit line. Each major market (by industry or geographical area). Each of 10-20 target accounts (for significant new and additional business.)

Get the sales representative's agreement about expenses to stay within for the next year:

- Total sales budget in dollars.
- Budget in dollars for: travel, customer entertainment, telephone, and other expenses.

Measuring

Review at least monthly the sales representative's record for:

- Year-to-date progress toward 12-month profit contribution goals.
- Year-to-date budget compliance.

Correcting

Meet with a sales representative if his or her record is 10 percent or more off target. Review the number of calls made on each significant account plus what he or she feels are his or her problems and accomplishments. In addition, you may need to do some of the following to help improve performance.

- Give more day-to-day help and direction.
- Accompany on calls to provide coaching.
- Conduct regular meetings on subjects that representatives want covered.
- Increase sales promotion activities.
- Transfer accounts to other sales representatives if there is insufficient effort or progress.
- Establish tighter control over price variances allowed.
- Increase or reduce selling prices.
- Add new products or services.
- Increase financial incentives.
- Transfer, replace, or discharge.

C: That's right. Additional costs such as price cuts, non-reimbursed overtime or makeovers caused by them, claims or credits due to their errors, and their expenses over what you would budget for - any of these reduce their profit contribution.

OM: That looks like a good way to get owner-managers to think in terms of the dollars their sales representatives bring in to cover overhead and profit. Of course, I don't necessarily have to let my sales force know what my direct costs are. But I do have to urge them to sell products with high profit margins. Or if they're selling products with low profit margins, they have to bring in big volume.

C: That's the idea. Incidentally, you don't have to have 100 percent accuracy on your direct costs for each product or product line. You can use standard estimates or annual estimates, as long as your sales representatives know what figures or numbers you're basing their performance evaluations on.

OM: Then, product Line A might have a profit contribution credit of 40 percent of the sales dollar; Profit Line B, a contribution of 25 percent; and Profit Line C, a contribution of 10 percent. Again, this is aside from any sales representative's controllable costs.

C: That's correct.

OM: I believe the sales budget items in your "Guide for Improving Sales Representative's Performance" (Exhibit 2) are self-explanatory. So my next question is: How can a sales representative plan the number of calls that should be made on accounts?

C: That's largely a matter of arithmetic. After all, there are only so many calls a sales representative can make in a year. Depending on selling style, one sales representative might average four calls per day, another six, and another eight. Say you have a sales representative who averages six and who is free to make calls on 200 working days a year - that's 1200 potential calls. The representative can allocate these calls among accounts in terms of the number of calls he or she feels is necessary and affordable to generate the business desired.

OM: How should the sales representative keep track of the number of calls made on accounts?

C: One way is to have each sales representative turn in a regular report on calls made. Another way is to leave it up to each of them to record dates of calls on account cards.

OM: I prefer the second way. My sales force knows I wouldn't have the time to read all the reports every week. Furthermore, to find out what my sales force is really doing takes an account-by-account review with each one. In the "Measuring" section of your "Guide" (Exhibit 2), why don't you use weekly figures instead of year-to-date volume?

C: You can have weekly figures if you want them. But year-to-date figures average out the very good or the very bad periods. With them, you're better able to see how each sales representative is progressing toward annual goals.

OM: The measuring job looks fairly simple when each sales representative has profit contribution goals and has planned his or her other calls.

C: Yes. But you still have to use judgement. You have to judge if, and when, you need to take corrective action. Unless you take the appropriate corrective action listed in the "Correction" section of the "Guide" (Exhibit 2), measurement is a waste of your time and money.

OM: I agree. I can see that the foundation of measuring and correcting lies first in planning - by defining the benchmarks in numbers that are profit-oriented.

C: Right. I couldn't have expressed it better.

Source: U.S. Small Business Administration

SELLING PRODUCTS ON CONSIGNMENT

Summary

Sellers seeking new and expanded wholesale and retail markets for goods can often use consignment selling to their economic advantage.

This publication provides a discussion of the advantages/disadvantages of consignment as an effective selling tool for the small business operation.

What happens to a manufacturer who has developed a new consumer product that is thought to be a best-seller, but no retailer or wholesaler is willing to invest enough capital to stock a small number of the items in inventory?

What happens to a manufacturer who is told that the seasonal product he or she is trying to sell is such a capital risk that there is probably no chance that it will make the retail shelves during the Christmas season?

How can manufacturers in these cases and similar cases make the products and terms of sale sufficiently attractive to get the product on retail shelves for exposure to the buying market?

Perhaps through the use of consignment selling.

Selling goods on consignment is described as a situation whereby goods are shipped to a dealer who pays you, the consignor, only for the merchandise which sells. The dealer, referred to as the consignee, has the right to return to you the merchandise which does not sell and without obligation.

As you can see, this may not be an ideal arrangement. The dealer has no money invested and is not obligated to 'push' your merchandise.

Purpose of Consignment Selling

Even with obvious disadvantages, there may be times when you may decide that consignment selling can serve your purpose. It can be used as a marketing tool, which creates no obligation on the part of the dealer in the event they do not sell. As a result, such practice can provide an attractive incentive for the dealer, at least to stock your merchandise. The dealer has no risk and you have your merchandise before the public.

Examples of goods often sold on consignment include light bulbs, produce, eggs, poultry, magazines, newspapers, Christmas decorations, garden seeds, batteries for flashlights, and potted plants such as those found in supermarkets.

In the case of perishable merchandise (either in quality or in seasonal appeal) dealers are often more inclined to consider placing it in their stock if they have no great threat of financial loss on investment in the event it does not sell.

In the case of a newly designed and manufactured product for which there is no sales record, dealers might be more enthusiastic about promotion if their investment loss is minimized.

Advantages of Consignment Selling

Now that you've read some general facts about consignment selling, look at the specific advantages to you as a manufacturer.

- It allows a seller (manufacturer) to place merchandise in wholesale and retail outlets for additional exposure to the buying market.
- It can provide an incentive for the wholesaler and retailer to stock goods in inventory because their capital is not tied up in inventory.
- It can encourage wholesalers and retailers to stock seasonal or otherwise newly introduced merchandise which they might not usually buy because of a lack of demand.
- It provides the manufacturer with the opportunity to have the merchandise exposed to the buying market, instead of having it stored and isolated in a warehouse while waiting for an order from a buyer.

Disadvantages of Consignment Selling

In deciding whether or not to use consignment selling, you need to look at the disadvantages.

- While your merchandise is being exposed on the shelves of a wholesaler or retailer, you get no money until they sell.
- As the manufacturer you must have enough cash on hand to wait extended periods for payments of merchandise sold.
- Since the goods are out of your physical control, you cannot control the damage and shopper abuse that inventory merchandise is generally subject to.
- You cannot always affect shelving decisions which wholesalers and retailers make concerning maximum exposure of the merchandise. Because consignees do not have any capital invested in the inventory, they may be inclined to place their outright-owned inventory in the most advantageous display spots in order to realize a fast return on investment if the consigned goods do not sell. They are aware that they do not lose any investment if the consigned goods do not sell. They do lose if the inventory they own does not sell.
- Where personal selling is important, outright-owned merchandise might be promoted over consigned goods because, again, return on investment matters where investment exists.
- If the gross margin to the seller is greater than the percentage commission with the sale of consigned goods, then the seller might tend to favour selling the outright-owned goods. For this reason, the consignee is introduced to the importance of providing an attractive incentive in the form of a commission for the consignee. In other words, the consignee needs a strong reason to sell the merchandise since the motive to recoup investment is not present.

A Few Words of Caution

Consignment selling may or may not be attractive to you. It depends on your situation. You might use consignment selling for market testing. It might be a fairly inexpensive way to learn how or if a new product will sell.

Keep in mind, however, that you tie up your funds waiting for merchandise to be sold. Also, the dealer may be a poor credit risk. Moreover, there may be other hazards inherent in a situation where the dealer does not have funds tied up.

In brief, the various factors over which you have less control than in other marketing situations could mean that the risks may be greater than your resources can absorb.

To evaluate whether or not consignment selling can be advantageous to you, consider the following discussion of the consignment relationship, special considerations, and examples of operational aspects.

The Consignment Relationship

The relationship that exists between you, the consignor, and another seller, the consignee, is an agency relationship. That is the consignee never takes title to the merchandise but acts as the agent of the consignor to pass title to the buyer.

Since title does not pass to the consignee in the absence of an agreement, liability of loss for the merchandise remains with the consignor.

This means that you and the consignee can agree to specific statements for assuming a share of the loss in case of shoplifting or other damage to the merchandise. However, in the absence of such an agreement, you, the consignor, are responsible for the loss involved even though the merchandise might have been shoplifted from the premises of the seller while the consignee exercised normal care in the display and handling of the merchandise.

Because of the details and legal implications involved in consignment selling you, as a consignor, should give careful attention and planning to selling products on consignment.

Give Special Consideration To...

Contractually speaking, you and your consignee can agree to a variety of mutually advantageous measures. For example, you might agree in writing that the merchandise will be placed in the wholesale or retail business where it is exposed to an estimated 50 percent of foot traffic that enters the store.

Also, you should agree as to the exact commission to be awarded to the consignee upon sale of the merchandise. The length of time (days, weeks, etc.) which the consignee will make payments for goods sold should be considered.

Agreement concerning delivery and pick-up of the merchandise might be included, as well as conditions of storage of any merchandise that is not on display, particularly perishable merchandise. Your contractual agreement might specify that you will be paid for 'inventory sold', when:

- Inventory Delivered Less Inventory Collected Equals Inventory Sold

Yet, the formula for payment noted above assumes that all merchandise will be either sold or claimed by the consignor and completely rules out the possibility of disappearance of the merchandise from the sales floor. Since shopper damage and shoplifting are sobering realities of doing business, it is wise to consider them and to plan for their occurrence beforehand.

The merchandise legally belongs to the consignor in a consignment sale and liability for any loss is still the consignor's problem. Some consignees may be willing to share the responsibility involved in loss due to shoplifting if the issue is handled tactfully.

In some cases, the co-signee will assume responsibility for damaged goods. When this is the case, you, the manufacturer, will suffer no loss. However, such cases are rare. At best, you can expect a sharing of the loss with the consignee.

When you assume part or all of the loss, ask for and keep the damaged goods for your records. A consignee could claim that some of your merchandise was damaged when in fact the consignee sold it and pocketed the money.

Also, consider damage caused by sun rays that fade colours and make some merchandise unfit for sale.

Examples of Consignment Selling

Consider the wholesaler of artificial floral merchandise who sell to numerous small and medium retail floral establishments. Such a wholesaler often stocks mostly staple merchandise with a limited assortment of infrequently sold items.

A manufacturer who has developed a novel item for that industry and has no sales history to use as a basis for showing the wholesaler that the item will sell, probably will have a difficult time getting the item into the wholesaler's inventory.

If a potential consignee such as the wholesaler in this example, is comfortable with the current sales levels and gross margin, the manufacturer will find it difficult to convince the wholesaler to carry this item in inventory.

Yet, in a consignment sale, the manufacturer can always ask, "What do you have to lose?" The answer is, of course, "Nothing."

If the manufacturer makes it easy enough for the wholesaler to stock the item and the wholesaler is aware of a possible commission for exerting very little effort, the merchandise usually has a very good chance of being placed in stock. As a result, the merchandise has wide exposure in the market and the wholesaler feels no risk associated with trying the merchandise. If it sells well, chances are good that it will be placed again. Even if the wholesaler had bought the items outright the first time around, and they did not sell, they would not be reordered. Thus, the marketability of the merchandise is at stake in either situation and the positive aspect of consignment selling is that the wholesaler is assured that he or she has no investment to lose.

In another example, consider a manufacturer of a seasonal item such as Easter baskets, Christmas ornaments, Halloween items or beach toys. Often wholesalers and retailers order these items far in advance and make a strong effort not to over order because the market is defined in terms of days or weeks.

Manufacturers can promote their products in these industries by assuring the wholesaler and retailer that whatever is not sold will be taken back by the manufacturer.

In such cases as these, shopper density is usually heavy during a short period of time. That is, there are several peak shopping days during which crowds of shoppers are likely, by their number alone, to cause significant sales and damage to at least some of the merchandise on the shelves.

An agreement concerning shoplifting and damage becomes particularly important in such cases.

Consignor's Liability

A serious issue to consider in consignment selling is that of liability for merchandise. Since the consignor remains owner and title does not pass to the consignee, legally the liability rests with the consignor, in the absence of any other agreement.

This means that whenever merchandise is destroyed by water, fire, or smoke while in the inventory of the consignee, the loss is that of the consignor.

The importance of the issue calls for special attention at this point because there is a sales situation that has been viewed by some as similar to consignment selling and can become a legal problem for the consignor. 'Sale or return' as it is called, is a situation in which the risk of loss passes to the consignee when the goods are in his or her possession.

'True Consignment'

From court decisions over the years, certain points have surfaced that are important in the determination of 'true consignment.' They are:

- The consignor is authorized to demand return of the goods at any time.
- The title rests with the consignor until the goods are sold, at which point, title moves directly to the buyer and never passes through the consignee.
- The consignee is authorized to sell the goods only at a specified price or not less than the invoice amount.
- The consignee is required to meet certain standards in keeping of the goods, such as their segregation from goods wholly owned or held under a claim of ownership or interest.
- The consignee is required to forward proceeds of sale immediately to the consignor or to deposit them in a special account.

The title issue becomes critical because creditors of the consignee will have claim to the merchandise if the title has passed to the consignee in a 'sale or return' situation. In a true consignment sale, the title always remains with the consignor.

If you plan to sell on consignment, your attorney can provide guidance on the legal aspects and your accountant can advise on the record keeping and accounting aspects of this type of selling.

Source: U.S. Small Business Administration

PROFIT BY YOUR WHOLESALER'S SERVICES

Summary

Wholesalers offer services that small retailers can use to strengthen their operations. In some instances, the 'helping hand' concerns only sales. In others, it extends to advice and help on record keeping, financing, administrative practices, location, insurance, and personnel.

This publication discusses such services pointing out that the range of assistance varies according to the individual wholesaler and the line of merchandise. Some of the services are free, but others carry a fee.

If you haven't checked the management services that your wholesalers offer, you should. Because their business depends on you and the other retailers to whom they sell, they are all common sources of assistance.

Depending on the types of assistance offered, your wholesaler may be able to help you 'butter your bread'. Some wholesalers offer services on sales promotion, buying, and new developments in products. Others try to 'think retail' and also provide services that help to increase your profits as well as sales. Some wholesalers may even assist you in the areas of financing and accounting.

The types of services and the extent to which they are available varies with wholesalers and lines of merchandise. Your wholesaler-distributor may or may not provide all of the services discussed in this publication, however, reading about them may help you when it is time for you to investigate such offerings.

Promotion

Wholesalers often offer help in promoting the products they sell to retailers. Some of these services are free while others carry a price tag. However, as a rule, the price tag is not great because the wholesaler spreads the cost of this sales-building program over a number of retailers.

- Featured Items

  One of the most effective forms of promotional assistance is pre-selected merchandise that you can feature co-operatively with other independent retailers. By pooling customer orders for such items, your wholesaler can often secure price concessions or other favourable terms from manufacturers or processors. Generally, the wholesaler passes these savings on to you, the customer, to help you counter the price appeals offered by large retailers who buy directly from the manufacturer in large quantities and thereby get price concessions. In other cases, a wholesaler-distributor will sell these pre-selected items at cost in an effort to have a major part of your business.

- Stock Control

  In some lines of goods, the wholesaler provides help with stock control. For example, a system is set up whereby the wholesaler's staff, with a minimum of attention from you, can keep your stock at the level you need for supplying your customers.

  One drug wholesaler uses pressure-sensitive labels on products and a computer to help retailers with stock control. When the retail druggist sells an item, he or she peels off the label and pastes it on a card. The wholesaler runs them through a computer for automatic maintenance of the retailer's inventory. This practice helps the retailer avoid tying up money in merchandise that doesn't move.

- Point-of-Sale Promotional Aids

  Some wholesalers are major sources of display material designed to stimulate 'impulse buying' for both nationally advertised and private brands. Because much of this material is furnished by manufacturers, the wholesaler keeps retailers informed about what is available and tells retailers how the aids can be used most effectively. In some instances, the wholesaler helps retailers in building effective window, counter, and bin displays. Sometimes the wholesaler may send an employee to work on the retail sales floor during special promotions.

  In some lines of business, wholesalers offer another type of promotional aid -- showrooms. For example, they allow their dealers to bring retail customers to their showrooms to inspect models that the dealers do not carry as regular stock.

- Co-operative Advertising

  Advertising on a co-operative basis with a wholesaler-distributor can be a reasonable economical way for featuring your merchandise and building customer loyalty. For this type of advertising, many manufacturers give the wholesaler an advertising allowance on purchases. This practice reduces costs that are charged on a percentage basis. Depending on the type and number of potential customers, the media most often used by wholesalers are radio and television, newspapers, and handbills.

Market Information

Wholesalers often supply market information that can help a small retailer attract customers and satisfy their wants. In numerous contacts with local businesses and distant suppliers, the wholesaler accumulates information about consumer demand, prices, supply conditions, and new developments in the trade. The wholesaler relays the information to retailers through bulletins, newsletters, order books, invoices, and sales people. One small retailer summed up these marketing services by saying that, "The wholesaler is in a good position to tell whether things are slowing down or changing and keeps us aware of these changes."

- Consumer Demand

  The wholesaler's position between national and regional suppliers and local buyers enables him or her to 'feel the pulse' of the consumer demand. The wholesaler can recognize, for example, events at the national and regional levels that are likely to bear on the amount of local consumer spending. Through numerous contracts with local retailers, the wholesaler learns which items have attracted the attention of consumers and which items have not. By reviewing orders, he or she can sense when demand for a product is changing and advise customers to adjust their buying and inventories accordingly.

- Price

  Often you can get comprehensive and up-to-date information from your wholesaler. Most wholesalers can collect competitive price information from their customers much more economically than the individual retailer could collect it.

  Suggested retail prices are also supplied by many wholesalers, particularly those offering co-operative advertising plans or those who sell their own private brands.

- Supply Conditions

  You can usually depend on your wholesaler to keep you informed about primary market conditions that would affect the supply of a particular product. Information concerning the possible scarcity or abundance of consumer goods or expected major shifts in prices are of particular importance when they reach you in time to be reflected in your buying plans.

- New Developments

  One of the easiest ways to keep abreast of new methods, new products, and new ideas is through the bulletins, newsletters, and other publications circulated by many wholesalers. These media often provide condensed versions of articles appearing in the trade or business press, lists of new products being introduced by manufacturers, pictures or descriptions of new equipment, and suggestions for improving merchandise displays and selling performance.

Accounting Systems

A number of wholesalers help their retail customers to maintain adequate accounting systems. Several types of accounting assistance are available through wholesalers who offer this service. Some wholesalers have compiled forms and manuals that retailers can use as the basis for good records.

A few wholesalers have retail accounting departments that perform virtually the entire accounting function for their customers. Retailers who use such a system supply operating information to the wholesalers at periodic intervals.

Other wholesalers have negotiated ‘umbrella’ contracts with private accounting firms. These firms, in turn, do the accounting work for a given group of retailers -- often at a smaller fee than the accounting firm could offer an individual retailer.

Policy and Methods

Many wholesalers offer guidance and counsel that retailers can use in setting policies and in improving methods. Some of the areas covered are public relations, housekeeping methods, and administrative procedures. Such assistance is usually available for the asking through the wholesaler's sales staff. In some instances, meetings are held to discuss such subjects, and retailers are kept abreast of new developments through bulletins and newsletters.

Many wholesaler-distributors belong to a trade association that specializes in their commodity line. These associations often publish monthly magazines as well as brochures aimed at helping the retailer.

Suggestions on setting policy and improving methods can be helpful because many small retailers get involved in the day-to-day tasks of keeping the business moving along. When this happens, they lose sight of the big picture. Often they overlook opportunities to improve their operations. For example, they know the value of good public relations but do nothing about it.

In other instances, they may not know how to build a favourable image and their time and money are spent uselessly. Because he or she is not involved in the routine of a store, the wholesaler can often detect such management weakness in customers and suggest ways for correcting them.

Looking Ahead

Many wholesalers go beyond day-to-day operating assistance and offer services that are designed to help their customers with long range problems. They offer help on real estate problems, financing, insurance and personnel.

- Real Estate

  Some wholesalers pass on to their retailers tips on stores that are for rent or for sale. These tips are given to their customers when they are considering a branch store. These wholesalers usually maintain up-to-date real estate files by gathering information from their salespeople, customers, newspapers, and real estate agencies.

  Depending on your wholesalers, you may be able to get help in analysing the suitability of various locations, including an evaluation of the market potential. Some wholesalers keep a finger on the direction and character of urban development and offer advice and desirable future locations. They help the retailer establish a priority rating for each location. New locations, particularly in shopping centres and other large-scale trading area developments, may involve complicated leasing arrangements.

- Finance

  In some cases, wholesaler-distributors help their retailers with long range financing. For example, a wholesaler may lend funds to enable a retailer to modernize an old building, acquire a new site, or erect a new building. The need for this type of financial assistance is especially evident in the retail food business. Here the trend toward costly supermarkets coupled with the inability of banks to help any but the best credit risks have greatly increased the importance of wholesalers as sources of direct financial aid.

  Indirectly, a wholesaler can help you with financial needs by supporting you at the bank or insurance company. The loan is made on the wholesaler's recommendation, and the wholesaler generally guarantees all or part of its repayment.

  In long-range financing, the retailer who deals with a relatively few wholesalers is in a better position than the retailer who buys small amounts from many wholesalers. The wholesaler naturally looks for retailers who have proved themselves and whose business offers growth possibilities for the wholesaler too.

- Insurance Counsel

  A number of wholesalers try to help their customers secure adequate protection against risks from theft, fire, smoke, and water damage. This assistance may involve:

  - Keeping you alert to your insurance needs
  - Making sure that your insurance is kept in force
  - Helping to get your claim settled as quickly as possible if a loss does occur

- Personnel

  Your wholesaler-distributor through his or her sales staff can help you obtain qualified store personnel in informal ways. For example, the wholesaler might tell you of an outstanding salesperson who wants to change jobs. Some of the larger wholesalers have even set up auxiliary personnel departments. Such departments maintain files on persons seeking retail employment and refer prospective employees to retailers on request.

Which Services Can You Use?

Not all of the services available from your wholesaler are equally important to you. Some may be indispensable. Others you can handle more effectively yourself. Some services carry charges, and you must decide whether or not they are worth their cost.

The first step in determining which services you can use is finding out what your wholesaler offers. Get all the details you can about each service that is available to you. Find out what advantages a service has for you. Find out what obligations it carries.

- First Things First

  At this point, a few words of caution are in order. As far as you are concerned, the main duty of a wholesaler is to supply you with items that you sell at a profit. Success in retailing starts with shelves and displays full of goods that customers want. When accepting management assistance from a wholesaler, you must be sure first that the distributor is a reliable source of merchandise.

  A small retailer, however, should know his or her customers better than the wholesaler. In mutual assistance, such as special promotion, the retailer should prevail. Resist the temptation to overbuy on attractive offers. For example, is there enough profit in using a salesperson to train your sales staff and sell to customers when you have to buy in gross lots rather than the usual case lot? It is your loss when the item doesn't move as fast as was thought. Try to schedule special promotions that are offered by the wholesaler to suit your plans for promoting sales and profits. Use co-operative advertising when it is to your advantage, but don't be a slave to it.

  In fact, don't be a slave to outside assistance whether it is from a wholesaler or another source. Regardless of a wholesaler's good intentions -- to help you sell more at a profit -- never forget that you are the boss.

- Compare Services

  When you have the details on the wholesaler's services, compare them with what you already have. If he or she can provide, for example, an accounting service, how does it compare with yours? Is it easier to use? Harder to use? Cheaper than yours?

- Follow Through

  When you sign for services from your wholesaler, follow through with your end of the agreement. Provide the information and direction needed to render the services you need. For example, when you use a wholesaler's accounting service, you need to send daily expense and revenue data on a given schedule and format so that the accounting staff can include your data in its work load.

Matters that can cause misunderstandings should be pinned down. For example, the order form should spell out prices, terms, dates of shipment, and liability for shipping costs. When an agreement is written, often mistakes can be corrected without damaging your relationship with the wholesaler. A verbal agreement may be another story.

If you want help in selecting and training personnel, you will need to give the wholesaler job descriptions to identify the types of employees you want and to determine whether or not applicants have the necessary skills.

Talk with your wholesaler and other business associates before obligating yourself. Make sure you need a service and figure out exactly how -- and how much -- you will profit from your wholesaler's services.

Source: U.S. Small Business Administration

HOME-BASED BUSINESS IN SASKATCHEWAN

Starting your own business at home can be a viable business opportunity. This publication will give you some idea of the types of businesses which can be operated from the home and provide some tips on start-up, pros and cons, and available resources.

Tips on Starting a Home-Based Business

- Pick a home business idea that interests you, for which you have a talent or expertise, for which there is a need, and which you can afford to finance.
- Do your market research. In a home business, as in any business, getting as much information as possible on your customers, competition, suppliers, and market area before you start is essential.
- Do a complete business plan, including financial planning, before beginning.
- Check on and obtain all necessary licenses, permits, and registrations for your line of business. This includes checking with your city/town/R.M. to see if it's legal to operate your business from home.
- Have business cards, stationery, brochures, etc., printed by professionals. A polished, professional look is particularly important for home-operated businesses.
- Advertise. Scan and target T.V. and radio stations, newspapers, magazines, and newsletters geared to your market. Use public and special libraries to access this information. Canadian Advertising Rates and Data (CARD) lists Canadian publications, T.V. and radio stations, and their advertising rates.
- Self-market. Go to stores, companies, etc., to market your service or product in person. Be sure to spend some time finding out about your potential customers before you try to 'sell' them.
- Designate and design a work area that is separate from the mainstream of your home activities. Install separate business phone, fax, and Internet connections.
- Check on any extra insurance needs. Shop around for policies, but make sure that you're adequately covered.
- Make use of free publicity. Send out news releases, present your product or service to a newspaper editor, radio or T.V. producer if applicable.
- Don't overlook management/bookkeeping. Lack of managerial expertise is one of the single highest causes of business failure. Take courses, seek expert advice or hire help, but do learn basic management skills before you start.
- Talk to owners of similar businesses outside your market area to get an idea of the potential and status of that line of business.
- Join trade associations, business community associations, (i.e., chambers of commerce), business networks, or clubs to help establish contacts.
- Check both federal and provincial taxation requirements with Canada Customs and Revenue Agency and Saskatchewan Finance. Find out about allowable deductions for automobile expenses, business meals and entertainment, and home offices expenses for self-employed persons.

Home-Based Business Ideas

ARTS-RELATED BUSINESSES:

Antique Refinishing and Repair
Appraisals - Art, Antique, Etc.
Art Dealership
Artist
Cartoonist
Costume Design
Entertainer
Film Production
Illustration/Graphic Arts
Music/Dance Lessons
Photography
Publishing

BUSINESS SERVICES:

Accounting
Advertising/Public Relations
Answering Service
Architecture
Billing Service
Buying
Calligraphy
Collection Agency
Consulting
Coupon Clipping Service
Data Processing
Detective Agency
Editing/Proof-reading
Entertainment Bureau
Home Economics
Importing
Interior Design
Inventor's Bureau
Lobbying
Messenger Service
Personnel Agency/Executive Recruitment
Research
Software Development and Sales
Stationery - Design and Production
Technical Writing
Telephone Solicitation/Surveying
Trade Show/Convention Organization
Translation
Typing/Secretarial/Word Processing
Writing

MISCELLANEOUS BUSINESSES:

Candy Making
Catering
Cooking/Baking
Dog/Cat Breeding
Dog/Cat Grooming
Rentals

PERSONAL SERVICES:

Astrology
Baby Items/Stork Deliveries
Baby-sitting/Day Care
Beauty Salon/Barber/Beauty Consultant
Bed and Breakfast
Chimney Sweeping
Cleaning
Cooking Lessons
Counselling
Dentist's Office
Doctor's Office
Gift Basket Service
Important Dates (Reminder Service for Birthdays, Anniversaries, etc.)
Insurance Agency
Lawyer's Office
Limousine Service
Mobile Home Rental Registry
Party Planning
Plant/Pet/House Sitting
Private Investment
Real Estate
Resume Writing
Sewing/Tailoring/Dressmaking
Shopping Service
Sports Lessons
Telegrams - Singing, Cookie, Balloon
Tours, Transportation Services (Children, Seniors, etc.)
Travel Agency
Videotaping Special Occasions
Vocational Counselling

RETAIL BUSINESSES:

Furniture Retail
Home Retailing & Selling (Amway, Avon)
Mail Order

MANUFACTURING/DESIGN/REPAIR:

Clothing Design
Doll Manufacture and Repair
Furniture Manufacture and Repair
Jewellery Design and Repair
Repair - Electrical, Appliance, etc.

TRADES:

Carpentry
Contracting
Electrician
Landscape Design/Gardener/Horticulture/Vegetable Growing
Plumbing

Pros and Cons of Working at Home

Pros:

- Lower costs: office/store rental, commuting, tax deductions, child care.
- Time saved: work when most productive, combine work and home chores, commuting time.
- Own boss: set own priorities, direct financial benefit when doing well.
- Can be home with family.

Cons:

- Work space: may be hard to set up a permanent, separate work space. If you must see clients/customers in your home it can involve costly renovations or you may have problems creating a professional image.
- Time: can be difficult to find quiet time to work or, conversely, work may cut into your family/personal life; it may be hard to 'get started'.
- Travel: if you visit clients in their office/store it may require a lot of time and will involve higher costs.
- Isolation

Resources

Samples of Books Available Regarding Home-Based Business

Dollars on Your Doorstep - Gregory Kishel and Patricia Kishel
Home Business Opportunities, A Treasury of - Russ Von Hoeschler
Home Business: The New Reality - Barbara Orser
Homemade Money - Edna Sheedy
Women Working Home: The Home-Based Business Guide and Directory - Marion Behr and Wendy Lazar

Samples of Books on Specific Businesses

ARTS-RELATED:
How to Make Money in the Antiques and Collectibles Business - Elyse Sommer
How to Survive and Prosper as an Artist - Caroll Michels
Promoting and Selling Your Art - Carol Katchen
Sell Your Photographs - Natalie Canavor
Selling Your Handcrafts - William Garrison
Start and Run a Profitable Craft Business - William Hynes

BUSINESS SERVICES:
Successful Conference and Convention Planning - Robert Drain and Neil Oakley
Words for Sale - Eve Drobot and Hal Tennant, editors
Starting and Building Your Own Accounting Business - Jack Fox
Start and Run a Profitable Consulting Business - Douglas Gray
Complete Guide to a Successful Small Client Tax Practice - Ralph Guyette
Making Money with Your Microcomputer - Robert Traister and Rich Ingram

For additional information visit the Regina Public Library online at http://rpl.regina.sk.ca or the Saskatoon Public Library online at http://www.publib.saskatoon.sk.ca or visit your local library.

MISCELLANEOUS:
Get Rich Through Multi-Level Selling - Gini Graham Scott
Marketing Your Product - Douglas Gray
Successful Catering - Bernard Splaver
Marketing Your Service - Jean Withers and Carol Vipperman

RETAIL:
Successful Direct Selling - Ronald Bernstein
How You Too Can Make at Least $1 Million in the Mail-Order Business - Gerardo Joffe
Sell it by Mail: Making Your Product the One They Buy - James Lumley
$36,000 a Year in Your Own Home Merchandising Business - Barry Masser

Home-Based Business Related Web Sites

Business Know-How
This site includes information on how to succeed in your home-based business.
http://www.businessknowhow.com

Canada-Saskatchewan Business Service Centre (CSBSC)
This site offers information on a wide variety of topics as well as information on current federal and provincial programs and services.
http://www.cbsc.org/sask

Small and Home-Based Business Links
This site provides business links to franchises, opportunities, financing, marketing, references, services, news, and more.
http://bizoffice.com/index.html

Canadian Home and Micro Business Federation
This site provides entrepreneurs with information, support and inspiration.
http://www.homebiz.ca/

EXPANSION OF YOUR HOME-BASED BUSINESS

If you are considering expanding your home-based business, you are being presented with similar issues that face other businesses that are considering expansion. It is important to consider both the upside and the downside of the move in your decision-making and evaluation process. The following is intended to briefly identify some of the issues that you should be considering:

What does it mean to expand your 'Home-Based' business?

- It could mean taking on an extra product line.
- It could mean taking on one more customer.
- It could mean deciding to buy more equipment or tools.
- It could mean moving out of the home and into a commercial location.

What issues should you be considering personally?

- Why do you want to expand?
- What will be the effect on you, your personal life, and your family?
    - With expansion will come more potential for profit and potential for problems.
    - It could possibly mean more time away from home or time devoted to the business in the home at the sacrifice of family.
    - Will you still enjoy the business?
    - Will there be more traffic to the home and what will be the effect on your privacy?
- Will you need to invest more personal financial resources into the business and do you have, or want to risk it?
- How do your expansion plans fit into your shorter and longer term business objectives?
    - It will depend on your motivations for starting and operating your business from the beginning.
    - Will it give you the extra financial return you may want and/or need?
    - Is it one more step in your longer term plan that may include ending up in a commercial section of your municipality?
    - Is the profit potential and return for your time and investment worth the effort?

What are the operational considerations?

- Is there a market opportunity and will there be a market reaction to your expansion?
    - Have you researched the idea?
    - A number of people start a home-based business to try out an idea at as minimal a cost as possible to see how the idea develops.
- Have you a promotional plan?
    - How do you plan to make the potential customer aware?
    - In a home-based business you can experiment to see what the most effective approach will be.
- Will there be equipment purchases and what about utility hook-ups?
- Will you be building your inventory and what about storage?
- Will home renovations be required?
- If you have a current distributorship or franchise agreement with a company, are there limitations to the products / services you may want to add?
- Are there municipal licensing and other regulatory limitations?
- Are there joint venture opportunities, possibly with other home-based businesses to grow the business mutually?
    - In other words, do you have to do it all yourself or can you link up with someone who complements what you do to mutual advantage?
- Do you have the management skills?
    - You will have to further assess your own abilities and skills.
    - If you feel deficient, how do you acquire them (or hire them) and what are the time lines and costs to do this?
- Are there employee supply considerations?
- Have you established the costs and source of funds to make your plans work?
- Have you done a cash flow / budget analysis to evaluate the idea?
    - Cash flow projections have limitations, but they are a planning tool and force you to identify your costs and estimate revenues on where you want to go.
- Have you a timetable? Have you a Business Plan?

PROFIT PRICING FOR THE COSTING OF A SERVICE

Successful business people know and understand the basic concepts of costing and pricing. This is particularly true in the service industry. This article is intended to provide a guide and an understanding of the main factors to consider when establishing your costs, your prices, and your profits.

Using a simplified approach to cost accounting, you can attempt to identify the associated costs of offering the service. The total cost of producing or offering a service is composed of three parts:

- The **material** cost
- The **labour** cost
- The **overhead** cost

Direct Materials + Direct Labour + Direct Overhead = Total Cost of the Service

Direct Material Costs

The direct material cost is made up of your cost for the parts and supplies that are used on specific jobs. Once the list of these has been developed, a check with a supplier will give an up-to-date material cost. The shipping and other handling costs for the parts should be included in this cost.

Direct Labour Cost

The direct labour costs include those wage and benefit costs identified with a specific job. The labour cost is calculated by multiplying the number of direct labour hours required by the direct labour cost. It is very important to accurately determine the amount of direct labour hours involved to complete the service. The direct cost of employee benefits such as Worker's Compensation, holiday pay, Employment Insurance, C.P.P., etc., can either be calculated as part of the labour or the overhead costs. It is important that they are included and not forgotten. These are also usually expressed as a percentage of the wage cost.

Overhead Cost

Overhead costs include all job related costs other than direct materials and direct labour, and may or may not include employee benefits, if you have already included them in the labour costs. Overhead is the indirect cost of the service and is made up of indirect materials, indirect labour, and other indirect costs related to the service. To figure the portion of overhead related to particular services or jobs, an overhead rate is calculated as follows:

$$\text{O/H Rate} = \frac{\text{Total Overhead Cost}}{\text{Total Direct Labour Cost}} \quad \text{OR} \quad \frac{\text{Total Overhead Cost}}{\text{Total Direct Labour Hours}}$$

The first method is the most common method where a specific service is performed such as machine or auto repair shops and the rate is expressed as a simple multiplier of direct labour. The second method is more suitable for services such as secretarial or janitorial services and the rate is simply an hourly rate that is allocated to billable hours. To calculate total overhead costs, small business should not depend solely on historic information, but should be using projections of your next six months to one year costs. These should more accurately reflect the costs of inflation and the future direction of the business. Once these individual costs have been calculated, the total cost of the job can be calculated by adding all three costs together.

Pricing

Once this has been done, it is important to calculate a profit factor into the price of the service. To this point, all you have done is covered your costs. The economy, prices charged by competitors, etc., will all have an impact on how much you can charge for your service. A number of pricing alternatives exist. Two examples of this are: 1) By applying a profit factor (%) to each of the three costs separately or 2) By applying a profit factor (%) to the total cost at the end.

Example:

Material Cost = Material Cost + Freight & Handling Costs

= $18.00 + $2.00

= $20.00

Labour Cost = Direct Labour Cost per Hour X Hours Required

= $5.00 per hour X 2.0 hours

= $10.00

Overhead Cost = Overhead Rate X Direct Labour Cost.

= $100,000 (Total Overhead) / $50,000 (Total Direct Labour) = 2.00 (Overhead Rate)
= 2.00 (Overhead Rate) X $10.00 (Labour Cost)

= $20.00

	Cost ($)	Profit (%)	Profit ($)	Total Price ($)
Total Material	= $20.00	X 10% =	$2.00	$22.00
Total Labour	= $10.00	X 30% =	$3.00	$13.00
Total Overhead	= $20.00	X 30% =	$6.00	$26.00
Total	= $50.00		$11.00	$61.00

Summary

The total cost of producing a service is composed of the total material, the total labour, and the overhead costs, and is used as the basis for setting prices and profit. Given regulations, competition, and the economy, you must have a pricing strategy that keeps you competitive and profitable.

CREDIT AND COLLECTIONS

Summary

The prime objective for any business is to survive. That means a firm must have enough cash to meet its obligations. This publication shows the owner-manager how to plan for the movement of cash through the business and thus plan for future requirements.

Introduction

"Business is booming. This month alone, the sales volume has risen over 50 percent."

Many proud owner-managers equate growth in sales volume with the success of their enterprise. But, many of these so-called "successful" businesses are becoming insolvent because they do not have enough cash to meet the needs of an increasing sales volume. For, without cash, how can the business pay its bills, meet its payroll requirements, and purchase merchandise for the increased sales demand?

A business must have enough cash to meet its legal obligations and avoid becoming insolvent. This is a primary business objective that may override other objectives, such as sales volume. What good is additional sales volume if you're out of business?

Sufficient cash is one of the keys to maintaining a successful business. Thus, you must understand how cash moves or flows through the business and how planning can remove some of the uncertainties about future requirements.

Cash Flow

- Cash Cycle

  In any business, there is a continual cycle of events that may increase or decrease - the cash balance.

  Cash is used in the acquisition of materials and services to produce the finished goods. When inventory is sold, these sales generate cash and accounts receivable (money owed from customers). When customers pay, accounts receivable is reduced and the cash account increases. However, the cash flows are not necessarily related to the sales in that period because customers may pay in the next period.

- Net Working Capital

  Current assets are those resources of cash and those that can be converted to cash within one year or in a normal business cycle. These include cash, marketable securities, accounts receivable, inventories, etc. Current liabilities are obligations that become due within one year or a normal business cycle. These include accounts payable, notes payable, accrued expenses payable, etc. The change in this value from period to period is called net working capital. For example:

	Year 1		Year 2
	19 x 1		19 x 2
Current Assets	$110,000		$200,000
less Current Liabilities	-70,000		-112,000
Working Capital	40,000		88,000
Net Working Capital Increased (Decreased)		$ 48,000	

Net working capital increased during the year, but we don't know how. It could have been all in cash or all in inventory. Or, it may have resulted from a reduction in accounts payable.

- Cash Flow Statement

While net working capital shows only the changes in the current position, a cash flow statement can be developed to explain the changes that have occurred in any account during any time period. The cash flow statement is an analysis of the cash inflows and outflows.

The ability to forecast cash requirements is indeed a means of becoming a more efficient manager. If you can determine the cash requirements for any period, you can establish a bank loan in advance, or you can reduce other current asset accounts so that the cash will be made available. Also, when you have excess cash, you can put this cash into productive use to earn a return.

The change in the cash account can be readily determined if you know net working capital and the changes in current liabilities and current assets other than cash.

Let:

NWC	be net working capital
CA	be the change in current assets other than cash
CL	change in current liabilities
Cash	be the change in cash

This relationship states that if we know net working capital (NWC), the change in current liabilities (CL), and the change in current assets less cash (CA less cash), we can calculate the change in cash. The change in cash is then added to the beginning balance of cash to determine the ending balance.

Suppose you forecast that sales will increase $50,000 and the following will correspondingly change:

Receivables	increase by $25,000
Inventory	increase by $70,000
Accounts Payable	increase by $30,000
Notes Payable	increase by $10,000

Using net working capital of $48,000, what is the projected change in cash?

cash = NWC - CA + CL
= 48,000 - 25,000 - 70,000 + 30,000 + 10,000
= - 7,000

Conclusion: Over this time period, under an increasing sales volume, cash decreases to -$7,000. Is there enough cash to cover this decrease? This will depend upon the beginning cash balance.

- Sources and Application of Funds:

At any given level of sales, it is easier to forecast the required inventory, accounts payable, receivables, etc., than net working capital. To forecast this net working capital account, you must trace the sources and application of funds. Sources of funds increase working capital. The difference between the sources and applications of funds is the net working capital.

The following calculation is based on the fact that the balance sheet is indeed in "balance". This is total assets equal total liabilities plus stockholders' equity.

current assets + noncurrent assets = current liabilities + long term liabilities + equity

Rearranging this equation:

current assets - current liabilities = long term liabilities + equity - non current assets

Because the left-hand side of the equation is working capital, the right-hand side must also equal working capital. A change to either side is the net working capital. If long-term liabilities and equity increase or non-current assets decrease, net working capital increases. This change would be a source of funds. If non-current assets increase or long-term liabilities and equity decrease, net working capital decreases. This change would be an application of funds.

Typical sources of funds or net working capital are:

- Funds provided by operations
- Selling of fixed assets
- Issuance of stock
- Borrowing from a long term source.

To obtain the item, "funds provided by operations," subtract all expense items requiring funds from all revenue that was a source of funds. You can also obtain this result in an easier manner: add back expenses that did not result in inflows or outflows of funds to reported net income.

The most common non-fund expense is depreciation: the allocation of the cost of an asset as an expense over the life of the asset against the future revenues produced. Adjusting net income with depreciation is much simpler than computer revenues and expenses that require funds. Again, depreciation is not a source of funds.

The typical applications of funds or net working capital are:

- Purchase of fixed assets
- Payment of dividends
- Retirement of long-term liabilities
- Repurchase of equity.

The following is an example of how sources and applications of funds may be shown to determine net working capital.

Statement of Sources and Applications of Funds	
Sources of Funds:	
From Operation	
Net Income	$ 10,000
Add Back Depreciation (non-cash item)	15,000
	$ 25,000*
Issuance of Debt	$175,000
Issuance of Stock	3,000
*Funds from Operations	25,000
	$203,000
Application of Funds:	
Purchase of Plant	$140,000
Cash Dividends	15,000
	$155,000
Net Working Capital Increase	$ 48,000

Good credit risks may be placed on a preferred list for automatic approval within certain dollar limits. Periodic review of these accounts is usually sufficient.

Accounts classified as fair risks will require closer checking, particularly on larger amounts or if some slowness in payment is developing.

The weak accounts will represent acceptable credit risks. However, you must closely watch these accounts. Here is where the credit manager will spend most of his or her time. Such risks are usually those with good management and sales ability but with limited working capital.
A business that may be considered marginal by one company might not be viewed as such by another. The standard for accepting business should be defined and set forth in your credit policy.

As an aid to credit approval, it is extremely helpful to establish a credit line for each customer. The credit line will act as a guide for approval of orders and is based on the customer's requirements and debt paying ability.

The credit line should serve the customer's normal requirements.

The credit line represents the maximum amount of credits to be extended to the customer based on the customer's balance sheet and financial capacity. Both the credit line and the credit limit will need periodic review, based on changes in the customer's financial status and credit experience gained with the account.

If your business has its accounts receivable and order entry function on a computer, it is a relatively easy matter to program the limits into the system and create exception lists showing orders over the established limits. This eliminates the necessity of reviewing each and every order and can be expanded to list orders placed on accounts that have past-due balances as well.

Credit Investigation

A primary cause for bad debt loss is a credit decision based on an inadequate credit investigation. Yet, prompt shipment of orders is essential. Your credit checking method should be geared for speed and efficiency to enhance the order flow.

The extent to which you investigate each customer's credit will vary with each case. You will want to consider:

- The size of the order and the potential for future orders.
- The length of time the customer has been in business.
- The status of the present account and previous business interactions.
- Whether or not the present product is seasonal and how it relates to the products offered by competition.
- Amount of time until delivery.
- Relationship of the order to the total credit exposure of the customer.
- Where the credit risk falls within the firm's credit policy.
- If it is a special order, whether a deposit should be required or if it should be COD.

You will base your credit investigation primarily on past experience of the customer, both yours and the experience of other suppliers as well. Your own customer ledger file is the first place to look. This will give you payment history, high credit, and frequency of purchase.

The management background and experience of the firm is a very important factor in its ability to maintain a profitable business. This can be a deciding factor when financial strength is somewhat light, often making the difference between a marginal and an unacceptable credit risk.

Information concerning bank dealings is always helpful as is trade experience from other suppliers. You can get this information in a number of ways. For new accounts, a complete credit application may be desired. Direct credit inquiry is a very effective way to gain the name of the customer's bank and trade references. Your salespeople are also a valuable source of information. Most suppliers and banks are very co-operative in exchanging credit information and they should be assured that the information obtained will be treated in the strictest confidence. Whenever possible, a financial statement should be obtained, usually directly from the customer, although such statements are available from the company prospectus if they issue one or are publicly held.

Outside Sources of Information

Valuable credit information is available from several sources. You should have a thorough knowledge of where to find these facts. Some of the sources are:

- Credit Bureau
- Dun & Bradstreet Reports

Collection Procedures

The collection of outstanding receivables is as much a responsibility of the credit department as the investigation, evaluation, and approval of the customer's credit. The collection effort should include a systematic and regular follow-up. This is vital to establish credibility with the customer concerning the company's credit terms.

Time is the essence of credit and collections. The follow-up must be made on a timely basis in order to be effective. A timely, accurate, monthly-aged trial balance of the company's accounts receivable is a most valuable method of reviewing and controlling the collections as well as for reference when granting further credit.

Holding customers' orders when an account is past due is an extremely effective collection tool. Prompt contact with the customer, tactfully and courteously made, will generally produce results. It is important to respond rapidly in the event that the customer does clear the account so that unnecessary delays in shipping are avoided. It is essential, therefore, that the credit department and accounts receivable bookkeeper have close communication with each other.

Since the credit department is responsible for the protection of working capital along with the promotion of profitable sales, periodic review of these goals should be made. Simple reports can be made for review and a comparison on a month-to-month basis to establish trends for evaluation.

One such report is the monthly collection index. This is a percentage of collection during the month to receivables at the beginning of the month.

Another is the accounts receivable turnover period. This is normally expressed as Days Sales Outstanding and is computed as follows:

$$\frac{\text{Average A/R Balance Last 3 month-end x 90}}{\text{Sales for Last 3 Months}} = \text{Days Sales Outstanding}$$

When computed monthly, along with aging data, Days Sales Outstanding proves an excellent means for watching collection trends.

The aged trial balance and percentages of past due accounts also provide a measure of effectiveness, along with the bad debt loss experience for the fiscal period compared to previous years and other similar businesses in industry.

Analysis of Results

It is not enough to simply compare the results of these various reports. The overall results of the credit function and collection efficiency must be judged in accordance with the sales and credit policy of the business, as well as with industry trends and economic conditions for the period.

Accurate records and reports will facilitate evaluation of credit and collection activities. If reports are prepared conscientiously and accurately, and if trends are observed and adjustments made when needed, your credit department will make a valuable contribution toward increased sales and profits for your company.

Source: U.S. Small Business Administration

PREVENTING THEFT

An owner-manager can lose a great deal of money from theft. Theft takes many forms such as employee embezzlement/pilferage, shoplifting, burglary and robbery loss. Prevention must start with the small merchant. You can use a combination of measures to protect your store. Even though you cannot eliminate theft entirely, you can take positive steps to keep it to a minimum.

Steps to Prevent Employee Embezzlement & Pilferage

- One of the most important things an owner-manager should do is set a good example. Your employees watch what you do and are prone to imitate your habits - good or bad.
- Check the background of prospective employees. Sometimes you can satisfy yourself by making a few telephone calls or writing a few letters.
- Know your employees to the extent that you may be able to detect signs of financial or other personal problems. Build up rapport so that they feel free to discuss such things with you in confidence.
- See that no one is placed on the payroll without authorization from you or a responsible official of the company.
- Either personally prepare the daily cash deposits or compare the deposits made by employees with the record of cash and cheques received. Make it a habit to go to the bank and make the daily deposit yourself as often as you can.
- Personally examine all cancelled checks and endorsements to see if there is anything unusual. This also applies to payroll checks.
- Make sure that an employee in a position to mishandle funds is adequately bonded. Let employees know that fidelity coverage is a matter of company policy rather that any feeling of mistrust on your part.
- Spot check your accounting records and assets to satisfy yourself that all is well and that your plan of internal control is being carried out.
- Personally approve unusual discounts and bad-debt write-offs. Approve or spot check credit memos and other documentation for sales returns and allowances.
- Don't delegate the signing of cheques and approval of cash disbursements unless absolutely necessary and never approve any payment without sufficient documentation or prior knowledge of the transaction.
- Examine all invoices and supporting data before signing cheques. Make sure that all merchandise was actually received and the price seems reasonable.
- Personally cancel all invoices at the time you sign the cheques to prevent double payment through error or otherwise.
- Don't sign blank cheques. Don't leave a supply of signed blank cheques when you go on vacation.

- Inspect all pre-numbered chequebooks and the pre-numbered forms from time to time to insure that cheques or forms from the backs of the books have not been removed and possibly used in a fraudulent scheme.

- Have the preparation of the payroll and the actual paying of employees handled by different persons, especially when cash is involved.

- Pay special attention to the sales person who is visited by too many personal friends. Keep a sharp eye for signals such as: nods, winks, etc., between cashiers and customers.

- Pay special attention to cashiers when they are surrounded by clusters of people. Watch for items bypassed when ringing up sales.

- Prohibit employees from parking near receiving doors or docks. Keep the receiving door locked when not in use. A receiving-door should be opened only by a supervisor who remains in the area until it is locked.

- Employees who are caught stealing will be prosecuted. Settling for restitution and an apology is inviting theft to continue.

- Rotate security guards to reduce fraternizing with other employees and to prevent monotony, which can result in reduced alertness of the guards.

Steps to Prevent Shoplifting

- Train your employees to be alert to the shoplifters' early warning signals. They should be on the lookout for concealment devices such as: bulky packages, pocketbooks, baby carriages, shopping bags, umbrellas, and newspapers.

- Watch for shoppers who are walking with short unnatural steps, lingering in one area, loitering near stock rooms or other restricted areas, wandering aimlessly through the store, or customers who continuously shop during hours when staff is low. Also, be aware of customers who are making eye contact with you. If a customer is watching where you and other employees in the store are, they are likely up to something.

- Plan the store layout with deterrence in mind. Maintain adequate lighting in all areas of the store, keep end displays low for better visibility. Keep small items of high value behind the counter or in a locked case with a sales clerk on duty. Also, attach noise alarms to unlocked exits, and close/block off unused checkout aisles.

- Use protective personnel and equipment. Uniformed guards are powerful visual deterrents to the shoplifter. Devices that can be used are: two-way mirrors, peep holes, closed circuit television, etc.

Steps to Prevent Burglary & Robbery Loss

- Be sure to use the right kind of lock on your doors. Under standard burglary insurance policies, evidence of a forced entry is necessary to collect on burglary insurance.

- Keep keys from falling into the hands of burglars, issue as few keys as possible. Keep a record on the keys you issued. Whenever a key is lost, or an employee leaves the firm without turning in his or her key, re-key your store.

- Implement a silent central-station burglary alarm system to give your store the best protection. The reason: it does not notify the burglar, as does the local alarm - such as a siren or bell - outside the store.

- Flood your store with lights. Outdoor lighting is another way to shield the store from burglary. Almost all store break-ins occur at night. Darkness conceals the burglar and gives him or her time to work.

- Implement indoor lighting. When a store is lighted inside, police officers can see persons in the store or notice the disorder that burglars usually cause.

- Arrange window displays so police patrols can see into the store.

- Be sure the safe in which you keep your money and other valuables is strong enough to deter burglars.

- Locate your safe properly. Putting a safe in the back of the store or where it is not visible from the street, invites burglary. Police recommend that the safe be visible to the outside street. Also, the safe area should be well lighted all night.

- No matter what the safe weighs, bolt it to the building structure.

- Leave the 'Cupboard Bare'. Even when you use an 'E' rated burglar-resistant money box, it is a good idea to keep on hand the barest minimum of cash. Bank all excess cash each day.

- Leave your cash register drawer empty and open at night.

- If possible, remove attractive and expensive merchandise from the window at night.

- Train to reduce risk. You should let each of your employees know what may happen if a robbery occurs. Train them on how to act during a hold-up.

- Emphasize the protection of lives as well as money. Warn each person that you want no 'heroes.' The heroic action by an employee or customer may end as a deadly mistake. The robber is as volatile as a bottle of nitro-glycerine. Handle him or her with the same care you would use with any explosive.

- Do not build up cash. Cash on hand is the lure that attracts a robber. The best deterrent is to keep as little cash in the store as possible. Another deterrent is camera equipment that photographs robbers.

- Make bank deposits daily. During selling hours, check the amount of cash in your register or registers. Remove all excess cash from each register several times a day.

- Do not set up cashier operations so that they are visible to outsiders. The sight of money can trigger crime. Balance your register an hour or two before closing - not at closing time. Make it a rule to keep your safe locked even during business hours.

- When making bank deposits you should take a different route to the bank each day and vary the time of the deposit. Obviously, the best time to make deposits is during daylight hours.

- You should also vary the routes you travel between the store and your home. Keep your store keys on a separate key ring. At least then, you won't be stranded by the loss of your car and personal keys.

- Opening or closing the store is a two-person job. When opening your store, station one person - an employee or your assistant- outside where he or she can observe your actions. You enter the store, check the burglar alarm to be sure it is still properly set, then move around in the store and look for any signs of unwanted callers.

SETTING UP A PAY SYSTEM

Summary

Pay administration is a management tool that enables you to control personnel cost, increase employee morale, and reduce work force turnover. A formal pay system provides a means of rewarding individuals for their contributions to the success of your firm, while making sure that your organization receives a fair return on its investment in employee pay.

This publication provides time-tested concepts for determining competitive pay levels and for maintaining fair pay relationships among the jobs comprising a small company.

Who Needs A Pay Administration Plan?

Pay administration may just be a fancy term for something you are already doing but haven't bothered to name. Or, perhaps your organization has not been paying employees according to any system, but waiting until unrest shows up to make pay adjustments - using payroll dollars to put out fires so to speak.

A formal pay plan, one that lets employees know where they stand and where they can go as far as take home dollars are concerned, won't solve all your employee relation problems. It will, however, remove one of those areas of doubt and rumour that may keep your work force anxious and unhappy - and less loyal and more mobile than you'd like them to be. What's in it for you? Let's face it, in business - particularly small business - it's good people who can make the difference between go and no go. Many people like a mystery, but not when it's about how their pay is set. Employees under a pay plan they know and understand can see that it's equitable (fair) and equable (uniform) - that pay isn't set by whim. They know what to expect and what they can hope to shoot for. In the long run, such a plan can help you:

- recruit employees
- keep employees
- motivate employees
- it can help build a solid foundation for a successful business

Developing and Installing the Plan

A formal pay plan doesn't have to cost you a lot of time and money. Formal doesn't mean complex. In fact, the more elaborate the plan is, the more difficult it is to put into practice, communicate, and carry out.

The foremost concern in setting up a formal pay administration plan is to get the acceptance, understanding, and support of your management and supervisory employees. A well-defined, thoroughly-discussed, and properly-understood plan is a prerequisite for success.

The steps in setting up a pay plan are:

- define the jobs
- evaluate the jobs
- price the jobs
- install the plan
- communicate the plan to employees
- appraise employee performance under the plan
- encourage employee feedback with respect to the plan

Defining the Jobs

Unless you know each job's specifications and requirements, you can't compare them for pay purposes. It's no surprise; therefore, that the initial step in installing a formal plan is preparing a job description for each position.

You may be able to write these descriptions yourself, since in many small businesses the owner-manager at one time or another has worked at just about every job. However, the best and easiest way to put together such job information is simply to ask employees to describe their jobs. Supervisors should be asked to review these descriptions.

Your best bet here is to prepare a simple form to be filled out by the employee (or someone interviewing the employee). This is the time to begin explaining to employees what you are doing. They need to know that their help is needed to develop the pay plan - that you are not trying to find out how well they are doing their jobs - just what they do. The form should contain the following categories:

- job title
- reporting relationship
- specifications
- primary function (what is the main responsibility of the job?)

Main Duties

- List main duties in order of importance and estimate the percentage of time spent on each

Other Duties

- List of duties not performed on a regular basis

Job Requirements

- formal education or training required[1]
- experience or background required
- technical/administrative complexity
- responsibility for dollar results
- responsibility for supervision
- unusual working conditions

It will probably take some time to prepare job descriptions from the information you get from your employees, but what you learn may have other uses besides comparing jobs for pay purposes. For one thing, you may discover that some employees are not doing what you thought they were, or what they were hired to do. You may find you want to make some changes in their work routines. The information may also be useful for:

- hiring, training and developing employees
- realigning duties in the organization
- comparing job data for salary surveys
- assuring compliance with various employment practice and pay rate laws
- evaluating job performance based on assigned duties

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[1] Have your supervisors review these items. You must then decide if the levels of training and experience your employees have is really what you wanted for their positions.

Evaluating the Jobs

Nobody knows exactly how much a particular job is worth to a company. Human judgement is the only way to put a dollar value on work. A good job evaluation method for firms with 100 or fewer employees is simple-ranking. It's a guess, too, but a pretty well controlled guess.

Under the simple-ranking system, job descriptions are compared against each other. They are ranked according to difficulty and responsibility. Using your judgement, you end up with an array of jobs that show the relative value of each position to the company.

After you have ranked the job descriptions by value to the firm, the next step is to group jobs that are similar in scope and responsibility into the same pay grade. Then, you arrange these groups in a series of pay levels from the highest to lowest. The number of pay levels depends on the total number of jobs and types of work in your organization, but for a company with 100 or fewer jobs, 10 or 12 pay levels is usually about right.

Pricing the Jobs

So far in establishing a pay system, you've had to look only inside the company itself. To put a dollar value on each of your pay levels, you should look outside at the going rates for similar work in your area. Since you have ranked and grouped jobs in pay levels, you won't have to survey each job. Survey those in each level that are easiest to describe and are most common in local industry. Do try, however, to survey those jobs that have more than one level, for example, junior and senior typists.

A survey of who's paying how much for what in your locality is the best way of finding out how much you ought to pay for each of your jobs. You probably have neither the time nor the money to spend on making such a survey yourself. That shouldn't be a problem; you should be able to get all the data you need from sources such as your local chamber of commerce, major firms located in your area, or from such national sources as Human Resources Development Canada, or Saskatchewan Department of Labour. If you belong to a trade association, you may be able to get its help to find out what the going rate is for one or more jobs in each pay level.

In studying pay in your area and applying what you learn to your own jobs, make sure you compare job descriptions, not just job titles. Job titles can be misleading; there can be great differences between what one organization and another calls their jobs. One firm's janitor may be somebody else's environmental control engineer.

After you are satisfied that you are comparing apples and apples, you can compute an average rate (the averages in the publications are purely arbitrary) for each job and enter it on a worksheet as follows:

Pay Level	Position	Average Rate
1	Clerk-Typist	$574
2	Stenographer	$635
3	Payroll Clerk	$687
4	Secretary	$723
5	Accounting Clerk	$741
6	Computer Operator	$815

and so on

You may need to adjust the average rates somewhat to keep a sufficient difference between pay levels to separate them. The going rates you find for each pay level can then become the midpoints of your pay level ranges. (You can, of course, set your company's ability to pay, the length of your work week, and the type and value of your company's benefit programs.)

Typically, the minimum rate in a level is 85 percent of the midpoint rate, and the maximum rate is 115 percent of the midpoint. With the arrangement, a new employee can increase his or her earnings by 35 percent without a job change, thus having performance incentives even if he or she is not promoted.

You now have a pay range for each position in your organization. It will resemble the following example:

Pay Range	Minimum	Midpoint	Maximum
1	$490	$575	$660
2	$530	$625	$720
3	$580	$685	$785
4	$615	$725	$835
5	$690	$815	$935

and so on

Such a pay range will enable you to tell where your employees' pay and pay potential stand in relation to the market rates for their kinds of work. It should show you at a glance where you need to make changes to achieve rates that are fair within your organization and pay that's competitive with similar businesses in your community.

In general, with a planned pay structure you should be able to tie individual rates of pay to job performance and contribution to company goals. It should also provide enough flexibility to handle special situations.

Installing the Plan

At this point you have the general plan, but you don't of course, pay in general. You must pay each employee individually. You must now consider how the plan will be administered to provide for individual pay increases.

In administering the pay increase feature of the plan, you can use several approaches:

- merit increases, granted to recognize performance and contribution
- promotion increases for employees assigned to different jobs in higher pay levels
- progression to minimum for employees who are below the minimum or hiring rate for the pay level
- probationary increases of newer employees who have attained the necessary skills and experience to function effectively
- tenure increases for time with the company
- general increases, granted employees to maintain real earnings as economic factors require and to keep pay competitive.

These approaches are the most common, but there are many variations. Most annual increases are made for cost of living, tenure, or employment market reasons. Obviously, you might use several, all, or combinations of the various increase methods.

You may find that a form for documenting salary increases and recording the reasons for them can be quite useful. You will probably find that records such as these are useful references for pay administration purposes.

Telling Employees about the Plan

After you have set your pay administration plan into place, you have to consider how to tell employees about it. If setting up a good program is number one in importance, a close number two is explaining that plan to employees.

How to tell them is your decision. Some of the more successful methods include personal letters to each employee and meetings to explain the plan and answer questions.

However you tell employees, you must clearly, honestly, and openly explain the way the plan works. This is a prime opportunity for you to build goodwill and good relations with your employees. Be sure your supervisors understand and can explain the plan to their people. Explaining the plan to new employees is also essential, and it's a good idea to review the plan periodically with all employees.

Employee Performance Appraisal

The majority of employees in the Canadian labour force are under merit increase pay system, though most of their pay increases result from other factors. This approach involves periodic review and appraisal of how well employees perform their assigned duties. An effective employee appraisal plan:

- achieves better two-way communications between the manager and the employee
- relates pay to work performance and results
- provides a standardized approach to evaluating performance
- helps employees see how they can improve by helping them understand job responsibilities and expectations
- sets targets for employees to aim towards.

Such a performance review helps not only the employee whose work is being appraised, but also helps the manager doing the appraising to gain insight into the organization. An open exchange between employee and manager can show the manager where improvements in equipment, procedures, or other factors might improve employee performance. Try to foster a climate in which employees can discuss progress and problems informally at any time throughout the year.

Again, to get the best results it's a good idea to use a form for appraisal. A typical form includes such job performance factors as:

- results achieved
- quality of performance
- volume of work
- effectiveness in working with others in firm
- effectiveness in dealing with customers, suppliers, etc.
- initiative
- job knowledge
- dependability

You can design your own form, using examples you can find in books on personnel administration, if necessary. Your forms should be tailored to the jobs and should follow from your job analyses.

How Can the Plan Help You?

The best pay plan in the world for employees won't be of any use if it doesn't help your business. What's in it for you?

Again, the answer is getting, keeping, and encouraging good employees. Your pay plan will help you:

Recruit	The pay ranges will provide competitive hiring rates for attracting high calibre employees.
Retain	The performance appraisal plan and pay increase feature will encourage performance plus growth and development within your organization.
Motivate	The pay plan will provide something to shoot for to keep employees interested in and enthusiastic about their present assignments and also provide the incentive to seek greater opportunity within your company.

Having capable employees who are interested and enthusiastic will help you win the battle for business survival and growth.

Updating the Plan

To keep your pay administration plan in tune with the times, you should review it at least annually. Make adjustments where necessary and don't forget to retrain supervisory personnel. This isn't the kind of plan that can be set up and then forgotten.

During your annual review, ask yourself if the plan is working for you. That's the most important question. Are you getting the kind of employees you want or are you just making do? What's the turnover rate? Do employees seem to care about the business? In the last analysis, it's not how elegant the plan is or how beautiful the forms and administration. What matters is how the plan helps you to achieve the objectives of your business.

Source: U.S. Small Business Administration

CHECKLIST FOR DEVELOPING A TRAINING PROGRAM

Summary

This publication is designed to help owner-managers of small manufacturing firms set up a systematic program for training their employees. The questions are designed to provide a step-by-step approach to the task of organizing and conducting a successful program of employee training.

Whether you are considering a continuous program or a one-shot course, the questions should stimulate your thinking. Many of them involve alternatives that you need to resolve in setting up the program.

Use this checklist as a guide. The experience of other companies in training can provide additional guides. However, in thinking about a training program for your company, consider each question and mark it 'yes' or 'no' in light of the training needs of your particular situation.

What Is The Goal Of Training?

The questions in this section are designed to help the owner-manager define the objective or goal to be achieved by a training program. Whether the objective is to conduct initial training, to provide for upgrading employees, or to retrain for changing job assignments, the goal should be spelled out before developing the plan for the training program.

		Yes	No
1.	Do you want to improve the performance of your employees?	___	___
2.	Will you improve your employees by training them to perform their present tasks better?	___	___
3.	Do you need to prepare employees for newly developed or modified jobs?	___	___
4.	Is training needed to prepare employees for promotion?	___	___
5.	Is the goal to reduce accidents and increase safety practices?	___	___
6.	Should the goal be to improve employee attitudes especially about waste and spoilage practices?	___	___
7.	Do you need to improve the handling of materials in order to break production bottlenecks?	___	___
8.	Is the goal to orient new employees to their jobs?	___	___
9.	Will you need to teach new employees about overall operations?	___	___
10.	Do you need to train employees so they can help teach new workers in an expansion program?	___	___

What Does The Employee Need To Learn?

Once the objective or goal of the program is set, you will need to determine the subject matter. The following questions are designed to help you decide what the employee needs in terms of duties, responsibilities, and attitudes.

		Yes	No
11.	Can the job be broken down into steps for training purposes?	____	____
12.	Are there standards of quality which trainees can be taught?	____	____
13.	Are there certain skills and techniques that trainees must learn?	____	____
14.	Are there hazards and safety practices that must be taught?	____	____
15.	Have you established the methods that employees must use to avoid or minimize waste and spoilage?	____	____
16.	Are there material handling techniques that must be taught?	____	____
17.	Have you determined the best way for the trainees to operate the equipment?	____	____
18.	Are there performance standards that employees must meet?	____	____
19.	Are there attitudes that need improvement or modifications?	____	____
20.	Will information on your products help employees to do a better job?	____	____
21.	Should the training include information about the location and use of tool cribs and so on?	____	____
22.	Will the employee need instruction about departments other than his or her own?	____	____

What Type Of Training?

The type of training to be offered has an important bearing on the balance of the program. Some types lend themselves to achieving all of the objectives or goals, while others are limited. Therefore, you should review the advantages of each type in relation to your objective or goal.

		Yes	No
23.	Can you train on-the-job so that employees can produce while they learn?	____	____
24.	Should you have classroom training conducted by a paid instructor?	____	____
25.	Will a combination of scheduled on-the-job training and vocational classroom instruction work best for you?	____	____
26.	Can your goal be achieved with a combination of on-the-job training and correspondence courses.?	____	____

What Method Of Instruction?

One or more methods of instruction may be used. Some are better for one type of training than another. For example, lectures are good for imparting knowledge, and demonstrations are good for teaching skills.

		Yes	No
27.	Does the subject matter call for a lecture or series of lectures?	____	____
28.	Should the instructor follow up with discussion sessions?	____	____
29.	Does the subject matter lend itself to demonstrations?	____	____
30.	Can operating problems be simulated in a classroom?	____	____
31.	Can the instructor direct trainees while they perform the job?	____	____

What Audio Visual Aids Will You Use?

Audio-visual aids help the instructor to make points and enable the trainees to grasp and retain the instructions.

		Yes	No
32.	Will a manual of instruction -- including job instruction sheets -- be used?	____	____
33.	Will trainees be given an outline of the training program?	____	____
34.	Can outside textbooks and other printed materials be used?	____	____
35.	If the training lends itself to the use of motion pictures, film strips or slides, can you get ones that show the basic operations?	____	____
36.	Have you drawings or photographs of the machinery, equipment or products that could be enlarged and used?	____	____
37.	Do you have miniatures or models of machinery and equipment that can be used to demonstrate the operation?	____	____

What Physical Facilities Will You Need?

The type of training, the method of instruction, and the audiovisuals will determine the physical facilities needed for the training.

In turn, the necessary physical facilities will determine the location of the training. For example, if a certain production machine is necessary, the training would be conducted in the shop.

		Yes	No
38.	If the training cannot be conducted on the production floor, do you have a conference room or lunch room in which it can be conducted?	____	____
39.	Should the training be conducted off the premises, as in a nearby school, restaurant, hotel, or motel?	____	____

		Yes	No
40.	Will the instructor have the necessary tools, such as blackboard, lectern, film projector, and a microphone (if needed)?	____	____
41.	Will there be sufficient seating and writing surfaces (if needed) for training?	____	____
42.	If equipment is to be used, will each trainee be provided with his or her own?	____	____

What About Timing?

The length of the training program will vary according to the needs of your company, the material to be learned, the ability of the instructor, and the ability of the trainees to learn.

		Yes	No
43.	Should the training be conducted part-time and during working hours?	____	____
44.	Should the sessions be held after working hours?	____	____

		Yes	No
45.	Will the instruction cover a predetermined period of time? (for example, 4 weeks, 6 weeks, 3 months.)	____	____
46.	Can the length of each session and the number of sessions per week be established?	____	____

Who Will Be Selected As Instructor?

The success of training depends to a great extent on the instructor. A qualified one could achieve good results even with limited resources. On the other hand, an untrained instructor may be unsuccessful even with the best program. You may want to use more than one person as instructor.

		Yes	No
47.	Can you fill in as an instructor?	____	____
48.	Do you have a personnel manager who has the time and the ability to do the instructing?	____	____
49.	Can your supervisor or department heads handle the instructions?	____	____

		Yes	No
50.	Should a skilled employee be used as the instructor?	____	____
51.	Will you have to train the instructor?	____	____
52.	Is there a qualified outside instructor available for employment on a part-time basis?	____	____

Who Should Be Selected?

Employees should be selected for training on the basis of the goal of the program as well as their aptitudes, physical capabilities, previous experiences, and attitudes.

		Yes	No
53.	Should new employees be hired for training?	____	____
54.	Should the training of new employees be a condition of employment?	____	____
55.	Would you prefer trainees with previous experience in the work?	____	____
56.	Are there present employees who need training?	____	____
57.	Would you consider employees presently in lower rated jobs who have the aptitude to learn?	____	____
58.	Is the training to be a condition for promotion?	____	____
59.	Will the training be made available to handicapped employees whose injury occurred while employed by the company?	____	____
60.	Will employees be permitted to volunteer for the training?	____	____
61.	Should employees displaced by job changes, departmental shutdowns, automation, and so on be given the opportunity to be trained in other jobs?	____	____

What Will The Program Cost?

It may be desirable to compute the costs of your training before starting the program. Thus, you can budget sufficient funds for the program and use the budget as a tool for keeping training costs in line.

		Yes	No
62.	Should you change the program for the space, the machines, and materials used?	____	____
63.	Will the wages of trainees be included?	____	____
64.	If the instructor is an employee, will his or her pay be included in the costs?	____	____
65.	Will the time you and others spend in preparing and administrating the program be part of the costs?	____	____
66.	If usable production results from the sessions, should the results of it be deducted from costs of the program?		____

What Checks Or Controls Will You Use?

		Yes	No
67.	Can you check the results of the training against the goal or objective?	____	____
68.	Can standards of learning time be established against which to check the progress of the trainees?	____	____
69.	Can data on trainee performance be developed before, during, and after training?	____	____

		Yes	No
70.	Will records be kept on the progress of each trainee?	____	____
71.	Will trainees be tested on the knowledge and skills acquired?	____	____
72.	Will the instructor rate each trainee during and at the end of the course?	____	____
73.	Will the training be followed up periodically by a supervisor or department head to determine the long-range effects of the training?	____	____
74.	Should you personally check and control the program?	____	____

How Should The Program Be Publicized?

Publicizing the company's training program in the community helps attract qualified job applicants. Publicity inside the company helps motivate employees to improve themselves.

		Yes	No
75.	If the program is announced to employees, will the announcement be made before the program starts?	____	____
	During the program?	____	____
76.	Are pictures to be taken of the training sessions and used on bulletin boards and in local newspapers?	____	____
77.	Should employees who complete the training be awarded certificates?	____	____
78.	Should the certificates be presented at a special affair, such as a dinner?	____	____
79.	When the certificates are awarded, will you invite the family of the trainees?	____	____
80.	Should the local newspaper, radio, and TV people be invited to the 'graduation' exercises?	____	____

Source: U.S. Small Business Administration

SELECTING YOUR SUPPLIER

A very important decision that has to be made early on in the process of starting your business is the selection of a supplier(s). Care should be given to this selection.

Take your time. The initial selection can prevent future misunderstandings, hardships, and even an unnecessary change of affiliation. Dealers should research their potential distributors (i.e. their background histories). It is also important that an alternative list of suppliers has been considered, in case something should happen to the primary one(s).

Before making contact with a potential supplier, it is important that you understand what you are looking for in one. The following points should be noted:

- How broad or complete is the assortment offering of the supplier?
- If offered, are 'Opportunity Buys' (deals) available on a regular or part time basis?
- What is the chance that the supplier will ship your order complete?
- What is the turnaround time on orders from the time that they receive the order to the time that it is shipped? (i.e. how much lead time do you have to allow for on an order?)
- How competitive is the wholesaler's pricing policy?
- What is their preferred method of shipping goods, or are various methods of shipment available? Note: The choice of how goods are shipped depends to a large extent on who is paying for the cost of the shipment.
- Are prices quoted Free On Board (F.O.B.) warehouse or delivered to the store?
- If it is an available option, at what point will orders be shipped prepaid?
- Are there volume discounts available for buying in quantity?
- Are there credit terms available and at what point may you be able to access them? (i.e. you will usually to have to establish a working relationship on a cash basis first before supplier credit may be offered.)
- If credit has been granted, are cash discounts available to encourage early payment of credit, i.e., 2% - 10 days, Net 30? (i.e. if you pay the bill in 10 days, you will receive a 2% discount, otherwise, the balance is due in 30 days).
- Can defective, damaged, non-selling, or overstocked merchandise be returned or be 'stock balanced' (substituted) for saleable product?
- If merchandise can be returned, who pays the freight and is there a restocking charge? (i.e. to cover the supplier's administrative and handling charges for putting it back into their inventories)
- Does the supplier offer advertising support? (i.e. possibly in a co-op form where each of you may share the cost of an ad and how strong is it)
- Where is the supplier located? Who else do they supply?

PROBLEMS IN MANAGING A FAMILY-OWNED BUSINESS

Summary

Management problems in a family-owned business are somewhat different from the same problems in a non-family business. When close relatives work together, emotions often interfere with business decisions.

In some family companies, control of daily operations is a problem. In others, a high turnover rate among non-family members is a problem. In still other companies, growth is a problem because some of the relatives are unwilling to plough profits back into the business.

This publication discusses such problems from the viewpoint of the family member who is the company's manager. It offers suggestions that should help you to manage effectively and profitably.

When you put up your own money and operate your own business, you prize your independence. "It's my business," you tell yourself in good times and in bad times.

However, "It's our business," in a family company. Conflicts sometimes abound because relatives look upon the business from different viewpoints.

Those relatives who are silent partners, stockholders, and directors see only dollar signs when judging capital expenditures, growth, and other major matters. Relatives who are engaged in daily operations judge major matters from the viewpoint of the production, sales, and personnel necessary to make the company successful. Obviously, these two viewpoints may conflict in many instances.

This natural conflict can be aggravated by family members who have no talent for money or business. Sometimes they are the weak offspring of the founders of the company -- sons and daughters who lack business acumen -- and sometimes they are in-laws who must be taken care of regardless of their ability or the company's needs.

Basically, the management problems that face the manager of a family-owned business are the same as those, which confront the owner-manager of any small company. But the job of the 'family manager' is complicated because of the relatives who must be reconciled to the facts of the market place, the factory, and the counting house.

The Sparks Fly

Different opinions do not always produce discord, but sometimes they cause 'sparks to fly' -- especially in a family-owned company. Emotion is an added dimension as brothers and sisters, uncles and aunts, nephews and nieces, and fathers and children work together in such a small business.

For the individual who must head such a company, the important thing is to recognize this dimension of emotions and to make objective decisions that are difficult to come by in such situations.

Many times when members of a family are active in the business, it is hard to make objective decisions about the skills and abilities of each other. For example, one says about another relative, "He was lazy when we were kids, and he's still lazy." Or a disgruntled wife says about an aunt, "What does she know about the business? She's only here because of her father's money."

If such emotional outbursts affected only the family, the manager might 'knock a few heads together' and move along. But often it is not that easy. The quarrels and ill feelings of relatives have a way of spreading out to include non-family employees.

Then the manager's problem is to keep the bickering from interfering with work. You cannot afford to let the company become divided into warring camps. You have to convince non-family employees that their interests are best served by a profitable organization rather than by allegiance to particular members of the family.

Another aspect of the emotional atmosphere is that often non-family employees tend to base their decisions on the family's tensions. They know how their bosses react and are influenced by this knowledge.

Is The Manager Really In Control?

The president of a small company is not always necessarily the person in charge. In many family-owned businesses, the elder statesman of the family becomes president or chairman of the board of directors. But day-to-day management is in the hands of other members of the family.

In some cases, even the best hands are tied as the family member tries to manage the business. For example, the ceiling on the amount of money that can be spent without permission from the rest of the family may be too low for the situation confronting the company. Having to clear operating expenditures may mean missing opportunities for increased profits, such as taking advantage of a good price on raw materials or sales inventory.

In other cases, a manager may be in a bind because of emotional involvement. For example, you may feel that you have to clear routine matters with top family members because "Uncle Bill never lets you forget your mistakes." Personalities and emotional reactions create bottlenecks that work against an efficient operation.

Efficiency may be reduced also by relatives who indulge in excessive family talk during working hours. The manager should set the example and insist that relatives refrain from family chit-chat on the job.

In some family-owned companies, the day-to-day manager may be a bottleneck. You may be a bottleneck because you do not have the ability to delegate work and authority. You may be the manager because of age or the amount of capital you have in the business without regard to your qualifications. In other instances, you may hold up progress because you do not listen to others in the company.

One solution is for other members of the family to persuade such a manager to let someone else run the day-to-day show, perhaps a hired manager.

If a member of the family has to be in charge of operations, he or she should be capable of using efficient management techniques and be thick-skinned enough to live with family bickering and tough enough to make his or her decisions stick.

One way to obtain objective control in a family-owned business is to hire an outsider to manage the day-to-day operations, when the company can afford it. Any manager may become as biased as any other family member. With a hired manager, the family members will have their hands full in setting policies and in planning for growth. An efficient hired manager will see to it that all employees -- family and non-family alike -- know to whom to report at all times.

Such definite lines of authority are even more important when a member of the family manages operations with other relatives filling various jobs. The responsibilities of family members should be spelled out. 'Family employees' should discipline themselves to work within the bounds of these lines of authority. Even then, it is wise to have a non-family employee high in the organization so that he or she can be involved in operations and help soothe out any emotional decisions which family members may make.

The manager's authority to suspend or discharge flagrant violators of company rules should also be spelled out. Management control is weakened if special allowances are made for 'family employees'.

An important question connected with authority is: Who takes over when something happens to the family member who heads the business? A position may be 'up for grabs' if the family hasn't provided for an orderly succession. This need is especially critical when the top family member is approaching retirement age and is in poor health.

Your Brother-In-Law Needs A Job?

One of the most common problems in a family business is the hiring of relatives who do not have talent. But what are you to do when your sister or another close relative says, "Bob needs a job badly"? The emotional aspect of such family relationships is hard to fight. But try to go into it with your eyes open. It will be hard to fire Bob if he turns out to cost you more money than his presence is worth.

The main thing is to recognize the talent or lack of it. Suppose your brother-in-law, for example, has little or no ability as far as your company is concerned. Perhaps you can put him in a job where in spite of his weaknesses he can make a contribution and not disturb your employees.

The major concern is not necessarily the relative but how he or she affects other employees. In some cases, a relative can demoralize the organization by his or her dealing with other employees. For example, he or she may loaf on the job, avoid unpleasant tasks, take special privileges, and make snide remarks about you and other relatives.

If you are stuck with such a relative, try putting him or her in a job where he or she will have minimum contact with other employees, out of the mainstream of decision-making. For instance, brother-in-law Bob might be placed in a sales office in another city some distance from the company's headquarters where he will be under the supervision of a top producer. Another alternative is to change his attitude by formal or informal education.

The key is to see that the non-talented relative does not affect the relationship that you, the manager, have with other members of your staff. Other employees will respect you for keeping relatives in line.

Strange things sometimes happen. There is always the chance that the non-talented relative may be under your direction and turn into an asset for your company.

Is Non-Family Turnover High?

Some family-owned companies are plagued with a high turnover among their non-family executives.

In other cases, top notch managers and workers leave because promotions are closed to them because they see your relatives being pushed into executive offices.

The exit interview is a useful device for getting at the root of this type of turnover. A key employee who has decided to leave may be eager to tell you the true story -- or at least enough of the facts to help you develop a course of action.

When a manager has the facts, he or she may have to confront the trouble-causing relative with an unpleasant story. What comes out of the confrontation is anyone's guess. Rare is the owner-manager who can fire a troublesome and close relative and make it stick. One way to remove such a thorn from the side of key executives is to help the relative start a business in a non-competing line -- provided he or she has the management ability that is necessary for success. Another way is to 'exile' him or her to a branch office or find a job with another company.

Spending To Save Money?

Many times, as the owner-manger you feel that you must make an expenditure to improve efficiency, yet other family members oppose the expenditure because they view it as an expense rather than an investment. They feel that funds spent for items, such as more efficient equipment, encroach on their year-end dividends.

One way to help these relatives see that 'you have to spend money to make money' is to base your arguments for the expenditures on fact and figures that non-family employees have gathered. Suggest to the opposing family members that the matter be settled on a cold dollar basis; for example, "by spending money for this machine, we can increase profits and get our money back in four years."

If the opposing relatives refuse to accept your projection, try calling in outside business advisors. Relatives will sometimes believe advisors, such as your banker, accountant, or attorney, when they won't accept your judgement. But keep in mind that outside advisors who are personally close to other family members, should not be included among your counsellors.

Paid consultants can also be useful in proving the worth of an expenditure. Such help is particularly valuable on specialized projects that require more research than you or your regular advisors have time to do.

Status Quo Blocks Growth

When some of the relatives in a family-owned business grow older, they develop an attitude of status quo. They don't want things to change and are afraid of risk. With this attitude, they can, and often do, block growth in their family's business.

The solution to such a problem is to urge or suggest that the status quo members slowly disappear from the scene of operation. One way to do this is to dilute their influence in management decisions. For example, the status quo relatives might be given the opportunity to convert their stock in the corporation to preferred stock; or they might sell some of their stock to the younger relatives.

It might also be possible for the status quo relatives to think in terms of gradual retirement. Their salaries can be reduced over several years, and they can relinquish some of their interests. With the proper legal advice, it might be possible for a small corporation to recapitalize. A new partnership agreement might be drawn up when the company is a partnership.

Such action can take into account all the growth of the business to that particular point and can enable the retreating members to recover their equity. Meanwhile, the manager and active relatives can renew their efforts toward expanding the business.

How Is The Pie Divided?

Paying family members and dividing profits among them can also be a difficult affair. Many persons feel that they are underpaid, but what about relatives who comment as follows:

"Uncle Jack sits around and gets more than I do."

"Aunt Sue goes to Europe on the returns of money her husband put into the business before he died ten years ago."

"Your brother goofs off and rakes in more than you do."

How do you resolve such complaints? You don't entirely; but if the business is a small corporation, certain equalizing factors can be accomplished by stock dividends. By recapitalizing the company, some stockholders can take preferred stock with dividends.

Salaries are best handled by being competitive with those paid in the area. Find out what local salary ranges are for various management jobs and use these ranges as a guide for paying both family and non-family personnel. When you tie pay to the type of work that the individual does, you can show disgruntled relatives the value that the industry puts on their jobs.

Fringe benefits can also be useful in dividing profits equitably among family members. Benefits, such as deferred profit sharing plans, pension plans, insurance programs, and stock purchase programs, offer excellent ways to placate disgruntled members of the family and at the same time help them to build their personal assets.

How the pie is divided is vital to growth in a small business. Profits are the seedbed for expansion, and lenders are influenced by what is done with profits. What banker wants to lend a company a substantial amount when its earned surplus is drained off by relatives?

Where Do You Go For Money?

Another major problem in managing a family business is that of obtaining money for growth. Generally speaking if the company is profitable, you can get funds from your bank; but when the growth is substantial, a company often outgrows its local bank. When you see the prospect of expansion looming ahead, the managing relative should begin to plan for it. You will need to consider techniques for planned financing which may be a combination of these items:

- taking out a mortgage on the company's building
- asking suppliers to extend credit on purchases
- factoring the company's receivables and inventory financing
- borrowing on a note basis from friends

- borrowing the cash surrender value of relatives' life insurance policies
- contacting an insurance company for a long-term loan

If the business is a small corporation, the following techniques also offer possible sources of money:

- selling a portion of the stock to another company for cash. In a merger, you can use the credit of the larger company
- contacting a regional investment banker who may privately find a lender, using some of the company's stock as collateral
- contacting a national investment banker who would underwrite some of the company's stock. This would be 'going public'
- effective budgetary controls are important in seeking growth funds. Such controls help the managing relative to determine the company's needs. Lenders also regard them as evidence of good management

Exchange Information

Fortunately, in most communities, the manager of a family-owned business is not alone. Other individuals operate small companies for their families and may provide a source of information and help.

The managing relative should seek out and cultivate counterparts. You can exchange ideas with them and learn how they solved problems in which their relatives were involved.

In a small corporation, the thinking can be stimulated by having outsiders on the board of directors -- directors who are not relatives and who are from other types of businesses.

National trade associations are also good sources of information and help. Through them, the managing relative can get facts from non-competitors.

U.S. Small Business Administration

IMPORTING - STEPS TO FOLLOW

1. **Provincial Sales Tax License**

Saskatchewan Finance
Revenue Operations Branch
2350 Albert Street
Regina, Saskatchewan
S4P 4A6
Telephone: 306-787-6645
Toll Free: 1-800-667-6102

2. **To Register a Business Name**

Saskatchewan Justice
Corporations Branch
1871 Smith Street
Regina, Saskatchewan
S4P 3V7
Telephone: 306-787-2962

3. **Importer's Number**

Canada Customs and Revenue Agency
Customs Office
1955 Smith Street
Regina, Saskatchewan
S4P 2N9
Toll Free: 1-800-959-5525

4. **Importing Forms**

Canada Customs and Revenue Agency
Customs Office
1955 Smith Street
Regina, Saskatchewan
S4P 2N9
Toll Free: 1-800-959-5525

5. **Marking Regulations for Imported Goods**

Industry Canada
Fair Business Practices
1020-2002 Victoria Avenue
Regina, Saskatchewan
S4P 0R7
Telephone: 306-780-5384
Fax: (306) 780-6506

6. **Product Safety**

Healthy Environments and Consumer Safety
Room 412, 101 22nd St. E.
Saskatoon, Saskatchewan
S7K 0E1
Saskatoon: (306) 975-4028
Winnipeg: (204) 983-5490

7. **Goods and Services Tax Number**

Canada Customs and Revenue Agency
Goods and Services Tax
1955 Smith Street
Regina, Saskatchewan
S4P 2N9
Telephone: 1-800-959-5525

8. **Importer's Permit Application**

Department of Foreign Affairs & International Trade
7th Floor, 123 - 2nd Avenue South
Saskatoon, Saskatchewan
S7K 7E6
Telephone: 306-975-4353
Toll Free 1-800-267-8376

#H5806 - Importing - Steps to Follow
Saskatchewan Industry and Resources
Business and Co-operative Services
04/02

NOTES TO THE IMPORTER STEPS

Saskatchewan Finance (#1) and Canada Customs and Revenue Agency (#4) must be contacted for any person involved in commercial transactions.

Industry Canada (#5) is contacted if the imported product is in a packaged form. It must meet the criteria outlined in the Packaging and Labelling Act. If the imported product is not in a packaged state, there must be a tag on the product identifying the country of origin. If one is lacking, Canada Customs and Revenue Agency's Customs Office will stop and hold the shipment from coming into Canada.

Healthy Environments and Consumer Safety (#6) is concerned with imported products that meet the regulations of the Hazardous Product Act. Products under this Act are toys, children's products, household chemicals and other numerous products. For verification of whether or not the imported product is under the jurisdiction of this Act, the individual should contact the Regional Product Safety Office of Healthy Environments for additional information.

Canada Customs and Revenue Agency, Goods and Services Tax (#7) will be contacted by all individuals importing goods. The GST is imposed on the selling price for duty-paid value of imported goods. Businesses with an annual sales volume of taxable goods below $30,000 are not required to be registered and do not have to charge the Goods and Services Tax.

The Department of Foreign Affairs and International Trade (#8) will provide the individual with an Importer's Permit application form. This permit is required specifically for imported clothes. Generally the permit is not needed for other goods, but verification should be made.

CHECKLIST FOR PROFIT WATCHING

Summary

Making a profit is the most important -- some might say the only objective of a business. Profit measures success. It can be defined simply as: Revenues - Expenses = Profit. So, to increase profits you must raise revenues, lower expenses, or both. To make improvements you must know what's really going on financially at all times. You have to watch every financial event without any kind of optimistic filter.

This publication is a series of questions with comments to help you analyze your profits, their sufficiency and trend, the contribution of each of your product lines or services to them, and to help you determine if you have the kind of record system you need. The questions and comments are not meant to be definitive presentations on the subjects. They are meant to point to areas where further study might be profitable.

Are You Making A Profit?

Analysis of Revenues and Expenses

Since profit is revenues less expenses, to determine what your profit is you must first identify all revenues and expenses for the period under study.

- Have you chosen an appropriate period for profit determination Yes____ No____

  For accounting purposes firms generally use a twelve-month period, such as January 1 to December 31 or July 1 to June 30. The accounting year you select doesn't have to be a calendar year (January to December); a seasonal business, for example, might close its year after the end of the season. The selection depends upon the nature of your business, your personal preference, and/or possible tax considerations.

- Have you determined your total revenues for the accounting period? Yes____ No____

  In order to answer this question, consider the following questions:

  - What is the amount of gross revenue from sales of your goods or services? (Gross Sales)
  - What is the amount of goods returned by your customers and credited? (Returns and Rejects)
  - What is the amount of discounts given to your customer and employees? (Discounts)
  - What is the amount of net sales from goods and services? (Net Sales = Gross Sales - (Returns and Rejects + Discounts)).
  - What is the amount of income from other sources such as interest on bank deposits, dividends from securities, rent on property leased to others? (Non-operating Income)
  - What is the amount of total revenue? (Total Revenue = Net Sales + Non-operating Income).

- Do you know what your total expenses are? Yes____ No____

  Expenses are the cost of the goods sold and the services used in the process of selling goods or services. Some common expenses for all businesses are:

  - Cost of goods sold (Cost of Goods Sold = Beginning Inventory + Purchases - Ending Inventory)

- Wages and salaries (Don't forget to include your own - at the actual rate you'd have to pay someone else to do your job)
- Rent
- Utilities (electricity, gas, telephone, water, etc.)
- Delivery expenses
- Insurance
- Advertising and promotional costs
- Maintenance and upkeep
- Depreciation (Here you need to make sure your depreciation policies are realistic and that all depreciable items are included)
- Taxes and licenses
- Interest
- Bad debts
- Professional assistance (accountant, attorney, etc.)

There are, of course, many other types of expenses, but the point is that every expense must be recorded and deducted from your revenues before you know what your profit is. Understanding your expenses is the first step toward controlling them and increasing your profit.

Financial Ratios

A financial ratio is an expression of the relationship between two items selected from the income statement or the balance sheet. Ratio analysis helps you evaluate the weak and strong points in your financial and managerial performance.

- Do you know your current ratio? Yes____ No____

  The current ratio (current assets divided by current debts) is a measure of the cash or near cash position (liquidity) of the firm. It tells you if you have enough cash to pay your firm's current creditors. The higher the ratio, the more liquid the firm's position is and, hence, the higher the creditability of the firm. Cash, receivables, marketable securities, and inventory are current assets. Naturally, you need to be realistic in valuing receivables and inventory for a true picture of your liquidity, since some debts may be uncollectible and some stock obsolete. Current liabilities are those, which must be paid in one year.

- Do you know your quick ratio? Yes____ No____

  Quick assets are current assets minus inventory. The quick ratio (or acid-test ratio) is found by dividing quick assets by current liabilities. The purpose, again, is to test the firm's ability to meet its current obligations. This test doesn't include inventory to make it a stiffer test of the company's liquidity. It tells you if the business could meet its current obligations with quickly convertible assets should sales revenues suddenly cease.

- Do you know your total debt to net worth ratio? Yes____ No____

  This ratio (the result of total debt divided by net worth then multiplied by 100) is a measure of how the company can meet its total obligations from equity. The lower the ratio, the higher the proportion of equity relative to debt and the better the firm's credit rating will be.

- Do you know your average collection period? Yes____ No____

  You find this ratio by dividing accounts receivable by daily sales. (Daily sales = annual credit sales divided by 360). This ratio tells you the length of time it takes the firm to get its cash after making a sale on credit. The shorter this period the quicker the cash inflow is. A longer than normal period may mean overdue and uncollectable bills. If you extend credit for a specific period (say, 30 days), this ratio should be very close to the same number of days. If it's much longer than the established period, you may need to alter your credit policies. It's wise to develop an ageing schedule to gauge the trend of collections and identify slow payers. Slow collections (without adequate financing charges) hurt your profit, since you could be doing something much more useful with your money, such as taking advantage of discounts on your own payables.

- Do you know your ratio of net sales to total assets? Yes____ No____

  This ratio (net sales divided by total assets) measures the efficiency with which you are using your assets. A higher than normal ratio indicates that the firm is able to generate sales from its assets faster (and better) than the average concern.

- Do you know your operating profit to net sales ratio? Yes____ No____

  This ratio (the result of dividing operating profit by net sales and multiplying by 100) is most often used to determine the profit position relative to sales. A higher than normal ratio indicates that your sales are good, that your expenses are low, or both. Interest income and interest expense should not be included in calculating this ratio.

- Do you know your net profit to total assets ratio? Yes____ No____

  This ratio (found by multiplying by 100 the result of dividing net profit by total assets) is often called return on investment or ROI. It focuses on the profitability of the overall operation of the firm. Thus, it allows management to measure the effects of its policies on the firm's profitability. The ROI is the single most important measure of a firm's financial position. You might say it's the bottom line for the bottom line.

- Do you know your net profit to net worth ratio? Yes____ No____

  This ratio is found by dividing net profit by net worth and multiplying the result by 100. It provides information on the productivity of the resources the owners have committed to the firm's operations.

All ratios measuring profitability can be computed either before or after taxes, depending on the purpose of the computations. Ratios have limitations. Since the information used to derive ratios is itself based on accounting rules and personal judgements, as well as facts, the ratios cannot be considered absolute indicators of a firm's financial position. Ratios are only means of assessing the performance of the firm and must be considered in perspective with many other measures. They should be used as a point of departure for further analysis and not as an end in themselves.

Sufficiency of Profit

The following questions are designed to help you measure the adequacy of the profit your firm is making. Making a profit is only the first step; making enough profit to survive and grow is really what business is all about.

- Have you compared your profit with your profit goals? Yes____ No____
- Is it possible your goals are too high or too low? Yes____ No____
- Have you compared your present profits (absolute and ratios) with the profits made in the last one to three years?

  Yes____ No____
- Have you compared your profits (absolute and ratios) with profits made by similar firms in your line?

  Yes____ No____

A number of organizations publish financial ratios for various businesses, among them Robert Morris Associates, Dun and Bradstreet, and Statistics Canada. Your own trade association may also publish such studies. Remember, these published ratios are only averages. You probably want to be better than average.

Trend of Profit

- Have you analyzed the direction your profits have been taking? Yes____ No____

The preceding analyses, with all their merits, report on a firm only at a single time in the past. It is not possible to use these isolated moments to indicate the trend of your firm's performance. To do a trend analysis performance indicator (absolute amounts or ratios) should be computed for several time periods (yearly for several years, for example) and the results laid out in columns side by side for easy comparison, you can then evaluate your performance, see the direction it's taking, and make initial forecasts of where it will go.

- Does your firm sell more than one major product line or provide several distinct services?

  Yes____ No____

  If it does, a separate profit and ratio analysis of each should be made:

  - To show the relative contribution by each product line or service;
  - To show the relative burden of expenses by each product or service;
  - To show which items are most profitable, which are less so, and which are losing money and
  - To show which are slow and fast moving.

Mix of Profit

The profit and ratio analyses of each major item help you find out the strong and weak areas of your operations. They can help you make profit-increasing decisions to drop a product line or services or to place particular emphasis behind one or another.

Records

Good records are essential. Without them a firm doesn't know where it's been, where it is, or where it's heading. Keeping records that are accurate, up-to-date, and easy to use is one of the most important functions of the owner-manager, his or her staff, and his or her outside counsellors (lawyer, account, bankers).

Basic Records

- Do you have a general journal and/or special journals, such as one for cash receipts and disbursements?

  Yes____ No____

  A general journal is the basic record of the firm. Every monetary event in the life of the firm is entered in the general journal or in one of the special journals.

- Do you prepare a sales report or analysis? Yes____ No____
- Do you have sales goals by product, department, and accounting period (month, quarter, year)?

  Yes____ No____

- Are your goals reasonable? Yes____ No____
- Are you meeting your goals? Yes____ No____

  If you aren't meeting your goals, try to list the likely reasons on a sheet of paper. Such a study might include areas such as general business climate, competition, pricing, advertising, sales promotion, credit policies, and the like. Once you've identified the apparent causes you can take steps to increase sales (and profits).

Buying and Inventory System

- Do you have a buying and inventory system? Yes____ No____

  The buying and inventory systems are two critical areas of a firm's operation that can affect profitability.

- Do you keep records on the quality, service, price and promptness of delivery of your sources of supply?

  Yes____ No____

- Have you analyzed the advantages and disadvantages of:
  - Buying from several suppliers? Yes____ No____
  - Buying from a minimum number of suppliers? Yes____ No____
- Have you analyzed the advantages and disadvantages of buying through cooperatives or other such systems?

  Yes____ No____

- Do you know:
    - How long it usually takes to receive each order? Yes____ No____
    - How much inventory cushion (usually called safety stock) to have so you can maintain normal sales while you wait for the order to arrive? Yes____ No____
- Have you ever suffered because you were out of stock? Yes____ No____
- Do you know the optimum order quantity for each time you need? Yes____ No____
- Can you take advantage of quantity discounts for large size single purchases? Yes____ No____
- Do you know your costs of ordering inventory and carrying inventory? Yes____ No____

    The more frequently you buy (smaller quantities per order), the higher your average ordering costs (clerical costs, postage, telephone costs, etc.) will be, and the lower the average carrying costs (storage, loss through pilferage, obsolescence, etc.) will be. On the other hand, the larger the quantity per order, the lower the average ordering cost, and the higher the carrying costs. A balance should be struck so that the minimum cost overall for ordering and carrying inventory can be achieved.

- Do you keep records of inventory for each item? Yes____ No____

    These records should be kept current by making entries whenever items are added to or removed from inventory. Simple records on 3x5 or 5x7 cards can be used with each item being listed on a separate card. Proper records will show for each item: quantity in stock, quantity on order, date of order, slow or fast seller, and valuations (which are important for taxes and your own analyses).

Other Financial Records

- Do you have an accounts payable ledger? Yes____ No____

    This ledger will show what, whom, and why you owe. Such records should help you make your payments on schedule. Any expense not paid on time could adversely affect your credit, but even more importantly such records should help you to take advantage of discounts, which can help boost, your profits.

- Do you have an accounts receivable ledger? Yes____ No____

    This ledger will show who owes money to your firm. It shows how much is owed, how long it has been outstanding, and why the money is owed. Overdue accounts could indicate that your credit granting policy needs to be reviewed and that you may not be getting the cash into the firm quickly enough to pay your own bills at the optimum time.

- Do you have a cash receipts journal? Yes____ No____

    This journal records the cash received by source, day, and amount.

- Do you have a cash payments journal? Yes____ No____

  This journal will be similar to the cash receipts journal but will show cash paid out instead of cash received. The two cash journals can be combined, if convenient.

- Do you prepare an income (profit and loss or P&L) statement and a balance sheet?

  Yes____ No____

  These are statements about the condition of your firm at a specific time and show the income, expenses, assets, and liabilities of the firm. They are absolutely essential.

- Do you prepare a budget? Yes____ No____

  You could think of a budget as a "record in advance," projecting "future" inflows and outflows for your business. A budget is usually prepared for a single year, generally to correspond with the accounting year. It is then, however, broken down into quarterly and monthly projections.

  There are different kinds of budgets: cash, production, sales, etc. A cash budget, for example, will show the estimate of sales and expenses for a particular period of time. The cash budget forces the firm to think ahead by estimating its income and expenses. Once reasonable projections are made for every important product line or department, the owner-manager has set targets for employees to meet for sales and expenses. You must plan to assure a profit. And you must prepare a budget to plan.

Source: U. S. Small Business Administration

ATTACKING BUSINESS DECISION PROBLEMS WITH BREAK-EVEN ANALYSIS

Summary

Break-even analysis can be a very useful and relatively simple tool for management to use in making decisions. It can be used for dealing with unknown variables such as demand. By specifying the levels of known variables such as costs or profit, a required or minimum level can be found for the unknown variable. Any problem requiring income estimation can be set up so that the most difficult variable to estimate is isolated for solution.

This publication illustrates ways in which break-even analysis can be applied to sales, profits, and costs. It also illustrates how it can be used to help make sound decisions for your business such as employing idle plant capacity, planning advertising, granting credit, and expanding production.

Break-even analysis is not a universal remedy. It is only one of the many tools available to the business decision maker.

Some Shortcomings of Break-even Analysis

The major problem with break-even analysis is that no project really exists in isolation. There are alternative uses for the firm's funds in every case. For example, in a manufacturer's case, a vacant plant could be leased to another company for some return. It could also be used for another product. We must, therefore, always consider not only the value of an individual project, but also how it compares to other uses of the funds and facilities.

Another shortcoming of break-even analysis is that it does not permit proper examination of cash flows. It is generally accepted in basic financial theory that the appropriate way to make investment or capital decisions is to consider the value of a proposed project's anticipated cash flows. If the discounted value of the cash flows exceeds the required investment outlay in cash, then the project is acceptable.

There are other objections. Break-even analysis makes many restrictive assumptions about cost-revenue relationships; in normal use, it's basically a negative technique, defining constraints rather than looking at benefits; and it's essentially a static tool for analysing a single period. What all this theory boils down to is that break-even analysis is too simplistic a technique to be used to make final investment decisions on its own.

You might well ask then: if that is true, what is break-even analysis good for?

Some Basic Uses for Break-even Analysis

- It's a cheap screening device. Discounted cash flow techniques require large amounts of expensive-to-get data. Break-even analysis can tell you whether or not it's worthwhile to do more intensive (costly) analysis.
- It provides a handle for designing product specifications. Each design has implications for cost. Costs obviously affect price and marketing feasibility. Break-even permits comparison of possible designs before the specifications are frozen.

- It serves as a substitute for estimating an unknown factor in making project decisions. In deciding whether to go ahead or to skip it, there are always variables to be considered: demand, costs, price, and miscellaneous factors. When most expenses can be determined, only two missing variables remain, profit (or cash flow) and demand. Demand is usually tougher to estimate. By deciding that profit must at least be zero, (the break-even point), you can then fairly simply find the demand you must have to make the project a reasonable undertaking.

- You still have to compare the demand figure at break-even with the market share you think you can capture to judge the worthiness of the project. Break-even analysis gives you a way to attack uncertainty, to get onto the target if not the bull's-eye.

Break-even Applied to Uncertainty

Break-even analysis is a management control that approximates how much you must sell in order to cover your costs with NO profit and NO loss. Profit comes after break-even.

The following formula will help in the calculation of your break-even sales volume level:

$$\text{Break-even} = \frac{\text{Fixed Costs*}}{\text{Contribution Margin \% **}}$$

$$= \frac{\$250{,}000}{15\%}$$

$$= \$1{,}666{,}667$$

* Fixed Costs are those costs that are not variable as a result of the sales activity. For example, rent of the building or insurance costs may be fairly constant no matter how sales vary, while, expenses such as advertising and usage of shop or store supplies will vary with sales.

** Contribution Margin = (Revenue - Variable Costs) / Revenue. In a retail business, the gross margin % is generally recognised as the Contribution Margin %. Gross Margin equals the difference between the Sales and the Cost of the Sales.

In this example, $1,667,667 is the sales that are required to cover fixed costs of $250,000 and a margin of 15%, with nothing left over for profit.

If you wanted to calculate the sales that are required to build in a profit factor, add the profit factor you want to allow for to the fixed costs. If in this example, the fixed costs are $250,000 and you want a $150,000 profit, add the two together and then apply the break-even formula to this.

$$\text{Break-even} = \frac{\text{Fixed Costs + Profit Margin}}{\text{Contribution Margin \%}}$$

$$= \frac{\$250{,}000 + \$150000}{15\%}$$

$$= \frac{\$400{,}000}{15\%}$$

$$= \$2{,}666{,}667$$

If this was a small manufacturing company and you wanted to calculate how many unit sales you need to break-even, you could divide the break-even sales volume by the unit-selling price. For example, if the unit sells for $10, the break-even unit sales before a profit is allowed for is 166,667 units and after a profit is allowed for, 266,667 units.

Conclusion

Break-even analysis requires above all, realistic definition of costs, both in amount and type. For many small businesses, break-even analysis can be a very useful management tool. At the same time, it is not a universal remedy, and should be used along with other management tools when making a decision.

Source: U.S. Small Business Administration

STANDARD OUTLINE FOR A PARTNERSHIP OR SHAREHOLDER AGREEMENT

The ideal time to reach unanimous agreement regarding how a company is organized, operated, changed, or liquidated, is before the investment transaction takes place. In order to have a productive meeting, you need an agenda and you need to make decisions; decisions that stand the test of being committed to writing in order to deal fairly with future events and consequences that may or may not occur.

This format is designed to help build a consensus among subscribers, but it is **NOT** a substitute for legal counsel or the requirements of the Saskatchewan Securities Commission.

- Describe the partners or shareholders and their investments.
- Describe the firm's trade name and style of identity.
- Describe the nature and scope of business activity.
- Identify the official business office address, and phone number.
- Establish a date to review the agreement.
- Detail each equity contribution and include the terms of each shareholder loan.
- Establish all banking resolutions and signing authorities.
- Establish the limits for personal guarantee bonds and postponements before negotiating any bank financing.
- Establish a dividend policy.
- Establish compensation for per diems, bonuses, salaries or drawings for the term of the agreement.
- Establish a policy for the inspection of business records and right of audit.
- Establish insurance coverage(s) and the indemnification of directors for contingent liabilities of the firm.
- Establish provisions for partners or shareholders:
    - wishing to retire
    - withdrawing equity
    - settling an estate
    - in arbitration of disputes
    - expelling a partner
    - selling to an outsider
- Establish provisions to evaluate the share of a retiring or deceased partner's interest.

- Establish rights and options for surviving or remaining partners or shareholders to purchase the interest.

- Establish the terms for restrictive covenants, conflict of interest, and non-competition agreements for partners leaving the firm.

Many simple companies are forged as 50/50 or equal partnerships in order to avoid the less exciting details of a formal agreement and get on with the business. The buy/sell agreement in these situations is usually just a simple *shotgun* clause (possibly named after a wild west version of the Mexican stand-off). In these situations, one party makes an offer and the recipients of the offer can either sell by accepting the amount, terms and conditions, or turn around and buy on exactly the same basis; thereby forcing the offer back to the issuer. This is quick end befitting a quick beginning!

BAD CHEQUE CONTROL

Bad Cheque artists steal millions of dollars from small businesses every year. Ironically, the small business helps them because it:

- is too trusting;
- is too embarrassed to insist on proper identification; or
- has failed to properly train staff.

It's always difficult (and usually impossible) to recover money lost this way. Prevention is far more effective than recovery.

Risks can be greatly reduced by:

- limiting cheque cashing authority to delegated employees only, who must initial cheques;
- establishing a maximum limit to cheques that authorised employees may accept.

Learn to recognize the characteristics of people who are deliberately passing worthless cheques. Here are a few of the danger signals:

- a stranger who objects to providing identification, but names well known people as his friends;
- a client who wants to write a cheque for more than the value of the merchandise and wants the difference back in cash;
- a cheque issued by an unknown company, especially if it is not properly printed on safety paper;
- a second party cheque … the chance of fraud is doubled;
- a postdated cheque or one which has been altered in any way;
- a client who presents a cheque made out to a company that he claims is his, therefore giving him signing authority;
- a cheque presented by a juvenile … children are not legally responsible;
- a cheque presented by a stranger on a weekend or holiday, when it is not possible to verify with a bank;
- an out of town cheque increases the risk and diminishes the chance of recovery.

DOING BUSINESS ON THE INTERNET

Internet Services

The Internet is not a single entity; it is more a complex system of services and programs that together, provide users with the Internet. Each of these services has different capabilities and functions. Working together, they provide users with a unique variety of services that can be used by businesses as a *research tool*, a *networking tool* and an *advertising medium*.

Opportunities Sourcing

- **As a Research Tool**

  The Internet has a vast collection of information that businesses can source to stay competitive in the market place. Included in this information are products and industry suppliers from around the world that can be found and contacted.

  By using a Web Browser, users can access Internet distribution services such as the World Wide Web. The Web allows users to download information from desired sites right to their computer screens. Once this information has been downloaded, it can be printed and/or saved on one's hard drive.

  Once on the Internet, Search Engines can be used to connect users with desired sites. Some common Search Engines are:

AltaVista	http://www.altavista.ca
Yahoo	http://www.yahoo.com
Excite	http://www.excite.com
Google	http://www.google.com
WebCrawler	http://www.webcrawler.com
HotBot	http://www.hotbot.com
Metacrawler	http://www.metacrawler.com
Dogpile	http://dogpile.com

- **As a Networking Tool**

  The most popular service on the Internet is e-mail. With e-mail, businesses can keep in touch with customers, business associates, and other entrepreneurs from around the world. Since e-mail is an inexpensive, convenient, and efficient communication tool, it has become far more superior to conventional means of communication such as the telephone, fax, and mail.

- **As an Advertising Medium**

  One of the more obvious uses of the Internet is advertising. Every year, marketing and advertising teams spend billions of dollars trying to sell their products and/or services. Now companies can promote their goods through the Internet at a cost per sale basis. Internet advertising reaches potential customers worldwide at less than 5% of traditional advertising costs.

Some of the great advantages of the Internet:

- The Internet has no boundaries and can be accessed in a matter of seconds. You can enter new markets all over the world with minimal costs.
- You can reach customers all over the world. And by using e-mail you can quickly keep in contact with your customers at a very low cost.
- The Web allows you to market your products or services to your clients or potential customers 24 hours a day, 7 days a week.

Other Internet Uses

The Internet has a variety of uses. Here are some of the many uses that companies are taking advantage of:

- providing human resources information
- customer service and support
- remote office and field support
- public relations (ie., news releases)
- selling products and offering product information
- corporate profiles
- investor relations - stock performance

Terms:

Download:	A way of transferring files from a remote computer to your computer.
E-mail:	(Electronic Mail) The transmission of correspondence and documents from one computer to another via telecommunications.
FTP:	(File Transfer Protocol) One of the first developed Internet Services that allowed users to move files from one place to another. It enables you to connect to a computer on the Internet (as long as you are allowed to write to that host), and transfer any type of files - programs, text, pictures, sound, or any other file format.
Internet:	A vast collection of networks from around the globe. Each network in the collection has a physical connection to one more of the other networks; thus, all networks on the Internet are connected. The Internet includes many services such as FTP, Telnet, and the World Wide Web (WWW).
Modem:	(Modulator-Demodulator) A device used to send and receive data over telecommunications lines.
Network:	A set of interconnected computers that can interchange information over long distances.
Search Engines:	Tools you can use free of charge that help you locate information on the Web.
TCP/IP:	(Transmission Control Protocol / Internet Protocol) Is a networking protocol that all companies must adhere to in order to make the Internet accessible by people using different types of machines. It allows for transferring data on the Internet itself, as well as on many local area networks.
Telnet:	Is a program that allows you (using a telephone line and a modem) to connect two computers together; it provides a terminal connection to the

remote machine. This connection enables you to type commands to the remote machine, just as if you had a terminal hooked to it.

UseNet: (also known as Newsgroups) Refers to a mechanism that supports discussion groups. In many ways, you can think of UseNet as an organized electronic mail (e-mail) system, except there is no single user that mail is sent to. Instead, the messages that are sent are available for anyone who accesses those newsgroups.

WWW: (World Wide Web) Is one of the newest Internet services. It allows anyone to easily access and display documents that are stored on a server anywhere on the Internet.

Websites of interest may be:

• Bank of Montreal	http://bmo.com/smallbiz
• Business Development Bank of Canada	http://www.bdc.ca
• Business Opportunities Classifieds Online	http://www.boconline.com
• Canada Customs and Revenue Agency	http://www.ccra-adrc.gc.ca
• Canada-Saskatchewan Business Service Centre	http://www.cbsc.org/sask/
• Entrepreneur Magazine	http://www.entrepreneurmag.com
• Franchise Annual Online	http://www.infonews.com/franchise/
• Government of Saskatchewan	http://www.gov.sk.ca
• Human Resources Development Canada	http://www.hrdc-drhc.gc.ca
• Idea Café: The Small Business Directory	http://ideacafe.com
• Inc. Online	http://www.inc.com
• Innovation Place	http://www.innovationplace.com
• Internet World Magazine	http://www.iw.com
• MERX	http://www.merx.cebra.com
• Sask. Industry and Resources	http://www.gov.sk.ca/econdev
• SBA: Small Business Administration Home Page	http://www.sbaonline.sba.gov
• Small and Home-Based Business Links	http://www.bizoffice.com
• Strategis	http://strategis.gc.ca
• Tourism Saskatchewan	http://www.sasktourism.com
• Western Economic Diversification	http://www.wd.gc.ca

Source: Daniel Dern. *The Internet: Information Highway for Small Businesses and Entrepreneurs*

PROFIT PRICING FOR A MANUFACTURER

Pricing of your product is an integral part of your marketing program, whether you are a manufacturer, broker, wholesaler, or retailer.

There are 4 keys to proper pricing:

1. know your market
2. know your competition
3. establish company profit goals
4. know your costs

When determining costs, it is obvious to retailers, wholesalers, and brokers, but not quite so evident to manufacturers.

In order to tabulate an accurate cost of finished product, the manufacturer needs to establish a costing system to account for material costs, direct labour costs, and factory overhead expenses.

Once costing is complete, the manufacturer then must determine a reasonable list price that will achieve the company's desired volume and profit goals. This price must also consider the competition and the market.

Other considerations which come into play when determining price include:

- previous / current / projected profits
- new market penetration
- increasing market share
- meeting or excluding competition
- stage product is in, in its product life cycle
- external economic trends

Each of the above can play a major role in your pricing decisions.

You may wish to price on the low side in order to penetrate new markets, or increase market share. Or, your intent may be to meet the competition, or keep it out.

Manufacturers must establish a number of different price levels, to coincide with the different channels of distribution.

Between the manufacturer and the end consumer, there may be as many as 3 intermediaries - a broker or manufacturer's representative, a wholesaler, and a retailer, each of whom requires a gross profit percentage.

A. Manufacturer --→ Consumer

B. Manufacturer --------------------------→ Retailer --------------------→ Consumer

C. Manufacturer ----------→ Wholesaler -----------→ Retailer --------→ Consumer

D. Manufacturer --→ Broker -----→ Wholesaler ----→ Retailer -----→ Consumer

Let us assume a product that costs $100 to manufacture (includes all costs such as labour, materials, and overhead); is distributed through a broker / manufacturer's representative, a wholesaler and a retailer. If we assume a gross profit requirement by the manufacturer of 30%, 10% for the broker, 30% for the wholesaler, and 50% for the retailer, the end price of a product costing $100 to manufacture would be $454.

Manufactured cost $100

	Assumed Gross Profit %	Resulting Mark-up %	Selling Price $
Manufacturer	30	43	143.00
Broker/Representative	10	11	159.00
Wholesaler	30	43	227.00
Retailer	50	100	454.00

Remember that *gross profit percentage* is the ratio of profit to sales, whereas *mark-up percentage* is the ratio of profit to cost of sales.

Example:

Gross Sales		$454.00
Cost of Sales	-	227.00
Gross Profit		$227.00

Gross Profit Percentage (%) is:

$$\frac{\text{Gross Profit \$}}{\text{Gross Sales \$}} = \frac{\$\,227.00}{\$\,454.00} \times 100 = 50\%$$

Mark-up Percentage (%) is:

$$\frac{\text{Gross Profit \$}}{\text{Cost of Sales \$}} = \frac{\$\,227.00}{\$\,227.00} \times 100 = 100\%$$

Your market research will determine the best types of distribution to use for your product to generate the desired profit margins.

You must remember that profit margins for the different channels of distribution are negotiable, and may be driven by product demand, etc.

Your price must fall somewhere between a *price ceiling* and a *price floor*, that is within the *relevant price range.*

The price floor is determined by costs and desired profits, while your price ceiling is established by the market and the market research you have done.

Only if you can produce and distribute at a cost that will permit recovery of costs and the desired margin at the price the market determines can you expect to conduct business profitably.

There are 2 basic rules to remember in setting prices:

- First, you must recognise that it is the market, not your costs, that determine the price at which your product will sell.
- Secondly, you must be aware that your costs and desired profits only establish the price floor (that price below which you cannot sell and make a profit).

Pricing practices in small manufacturing businesses sometimes become out-dated. Market conditions change and pricing practices that were successful a year or so ago may no longer be appropriate.

Therefore, pricing practices should be reviewed regularly for possible impacts of rising costs, material shortages, swings in the economy, and tougher competition.

Good pricing practices require an understanding of the influence of market factors, the economy, technology, competition, and resources. The manufacturer must regularly consider each of these factors in addition to cost-related factors internal to the company.

Source: Bank of Montreal - Independent Business Review - Volume 4, No. 4., S.B.A. Management Aid No. 226 - Pricing for Small Manufacturers.

THE JOINT VENTURE AGREEMENT CHECKLIST

The Joint Venture Agreement

Repeated reference has been made to the importance Joint Venture Agreements play in the formation and implementation of the joint venture.

The Joint Venture Agreement legally creates the joint venture through the process of contract, and identifies the major rights, duties, and obligations of the participants of the joint venture.

The Joint Venture Agreement identifies:

- the project or object of the joint venture;
- the contribution, role and involvement of each co-venturer;
- the terms or duration for which the joint venture will exist;
- the provisions for management and performance of joint venture obligations; and,
- allocation of revenues and expenses from the project.

The Joint Venture Agreement checklist:

1. The date on which the agreement is established and executed.
2. The names, addresses, and identification of the parties, including the type of business of each member of the joint venture.
3. The name under which the joint venture will do business.
4. The principle place of business of the joint venture.
5. The purpose of the joint venture. If the purpose is to access a specific project, a full description of that project is required.
6. The terms of the joint venture: when and how the joint venture is terminated; and how such items as guarantees, defects, and insurance will be handled after termination.
7. A statement that the parties are actually co-venturers for the project whether or not the contract is in the name of all members.
8. A declaration that the organization is a joint venture, not a partnership.
9. The establishment of a fund by the parties to finance the work, together with the amounts to be contributed by each party, with the fund being deposited in a special bank account under dual control and all progress payments and other revenues being deposited in such account.
10. A clause providing that, if additional working capital is required, the parties will proportionally contribute additional funds, as needed and naming the penalty for failure to contribute.
11. A declaration of the participation of the parties and percentage in which profits and losses are shared. Usually these percentages are proportional to the contributions to the working fund, but the amount of contribution of funds by parties can be increased or decreased depending on the contributions of equipment or expertise, which also must be considered.
12. Payment of any fee to the controlling co-venturer or sponsor should be specified; whether a share of the profits in excess of that contemplated is given to the controlling manager or a flat dollar sum is paid.
13. If equipment is involved, a specific clause should be inserted especially where the parties contribute varying amounts of equipment.
14. The parties to the joint venture should agree to sign all necessary documents relating to the contract, bank loans, bonds, indemnity agreements and the like.

15. Control management committee may be determined. A management committee may be established with provision for remuneration. Alternatively, one of the co-venturers should be designated as general manager of the project, with authority to bind the joint venture. A provision to clearly define not only the management duties, but all other duties of the co-venturers and procedures to be followed in dealing with unusual situations or problems that may develop.
16. A regular meeting schedule should be considered.
17. A financial and periodic joint venture progress reporting procedure should be implemented.
18. Establishment of a joint venture bank account, and the appointment of a chartered accountant and lawyer.
19. The possibility of the death, bankruptcy, or insolvency of a member must be handled.
20. The acquisition of equipment and materials by the joint venture and the disposal of such equipment and material either by sale with the proceeds treated as ordinary revenues, or by distributing the funds to the co-venturers on a pro-rata basis.
21. Provide for the acquisition of licenses in the name of the joint venture or each co-venturer as required.
22. Specify the type of insurance carried by the joint venture and clearly define the liabilities that are to be insured against by each participant.
23. Define items that are to be considered as costs to the joint venture for the purpose of determining profit or loss and describe those items that are not reimbursable to members of the joint venture.
24. A clause should be included respecting the confidentiality of trade information passed between the co-venturers.
25. Ownership or retention of patents, technology, and consultant reports should be addressed.
26. Establish the performance security requirements of the project and the bonding obligations of the co-venturers.
27. State that undivided pro-rata interests are held by the co-venturers on all assets of the joint venture.
28. Restrictions should be considered regarding assignment of co-venturers undivided pro-rata interests in assets of the joint venture.
29. Indemnification.
30. Substitution or addition of co-venturers.
31. Payout of funds.
32. Disputes arbitration clause.
33. Winding up, final performance and financial statements for the joint venture.
34. Notice clause.
35. The applicable jurisdiction of the Agreement should be stated.

The nature, size, and complexity of the project together with the sophistication of the parties will determine the detail in which the Joint Venture Agreement is prepared and aforementioned topics dealt with. This checklist is meant only as a guide to putting a Joint Venture Agreement together. The appropriate professional services, such as legal counsel should be sought out and utilized. You may wish to contact the *Lawyer Referral Service* toll-free at 1-800-667-9886 for assistance in locating a lawyer who specializes in this area.

Source: "How to Use Joint Ventures - A handbook for firms bidding on major projects", A Government of Saskatchewan publication. Prepared by Thomas Pavlovsky, B.Admin., C.A. and Ted C. Zarzeczny, Jr., B.A., LL.B. for the Major Projects Branch

BASIC PROPOSAL FOR TENDER

The following are a number of areas you should be aware of when pursuing a contract for service. The appropriate professional services, such as legal counsel should also be sought out and utilized.

1. **Site:**
   Where the work is to be done?
   What size of area?
   What type of work?

2. **Contact:**
   Ensure you have a contact to clarify and discuss services with.

3. **Qualifications:**
   What methods are used to determine the qualifications of you and/or your employees?

4. **Examination of contract documents and site:**
   It is up to you to examine documents and visit the site.

5. **Federal, Provincial and Municipal laws:**
   It is important that you understand and comply with them in the performance of the work.

6. **Bond:**
   What size ($) and type of bond is required?

7. **Insurance:**
   General liability insurance coverage?
   Amount?

8. **Contract time:**
   When do you start and when is the contract over?

9. **Subcontractors:**
   Note - be sure you are aware of supplementary conditions or specifications relating to subcontractors.

10. **Omissions:**
    If you think some term or condition is missing or there is a discrepancy, bring it to the attention of the owner.

11. **Addenda:**
    Before submitting your tender prior to the closing, check to see if any changes have been made to the tender.

Example: Janitorial business

Seasons:
Spring, summer, fall, and winter can create conditions that may require more time or special duties. Ice from sidewalks, mud from carpets, and maintenance of shrubs.

Types of contracts:
It may cost a lot more to clean a restaurant as opposed to the equivalent space in an office.

- Conditions of premises is important. A poorly maintained parking lot may track in mud and snow.
- You may have to spend extra hours to get premises in shape.
- More work may be required while renovations are being done.

Before signing a contract, have your lawyer review it and ensure you understand and can accept the obligations you will be responsible for.

Sample Calculation Sheet for a Janitorial business For Client Quote

Five days per week.

Customer Requires	Estimate of Time Required		Daily Weekly		Total Time
Carpet vacuumed daily	½ hr.	x	5	=	2 ½
Damp mop tile daily	¼ hr	x	5	=	1 ¼
Empty garbage daily	5 min.	x	5	=	½
Wash windows weekly	30 min.	x	1	=	½
Total Time Estimate					**4 ¾ hours**
Cost = 4 ¾ hours x $7.00	$33.25				
Benefits 12%	$ 3.99				
Total Labor Costs					**$37.74**
Janitorial Supplies					
Windex	$ 1.00				
Garbage Bags	$ 1.00				
Total Supplies					**$ 2.00**
Equipment Costs					
Vacuum	$700.00				
Mop & Pail	$ 40.00				
Ladder	$ 50.00				
Pail Squeegee	$ 20.00				
Cost of Equipment	$810.00				
Cost @ 2%/month =	$16.20/month				
	4 weeks				$ 4.05 / week
Total of estimate used as quote to client					**$43.79 / week**
				GST	$ 3.06
				Total	**$46.85 / week**

This is an example of what needs to be highlighted when defining the time, supplies, and equipment needed to pursue a tender. This same model can be used for other business service tenders.

BONDING

What is Bonding?

"Bonding is surety, the state of being sure, certain and secure".* Surety bonding is essentially an agreement between three parties whereby one party guarantees that another party will perform the work that is stated in contract to the best of his/her ability. It is a guarantee that the owner of a job will receive the quality and completion of work that he/she anticipates.

Depending on what type of business you are in, you may be required (by law) to obtain bonding before you can start work. For those of you who are not required to seek bonding, you may decide that the benefits of obtaining it is well worth the hassle. Whatever your case, there are many different kinds of bonds to choose from and each of them serves a different purpose.

The three most common types of bonds are:

(1) Contract Bonds (Bid Bonds)
(2) Fidelity Bonds
(3) Miscellaneous Bonds

Contract Bonds/Bid Bonds

Most often used in the construction industry, bid bonds ensure owners that the contractor who is the lowest bidder on their job, can and will enter into contract at the tendered price. If the contractor fails to fulfill his/her obligations under the bid bond, he/she must compensate the owner for the difference between his/her bid and that of the next lowest bidder.

When applying for a bid bond, surety companies look at much the same characteristics in an applicant as a bank does when issuing a loan. First, the surety will conduct a review of the company's management performance. This will give the surety knowledge of the company's history, as well as provide information on whether or not the company is respected in the construction community. Next, the surety will examine the qualifications and background experience of the contractors personnel. Finally, the tangible net worth of the contractor will be determined through financial statements and the net worth of its shareholders. This will help the surety determine whether or not the contractor will have the financial capacity to complete the project.

In addition to the basic criteria, when qualifying for a bond, surety companies also examine contract-related characteristics. These may include: **The Nature of the Work**, does the project fall into the contractor's range of expertise; **Project Location**, is there more risk involved because of the project's distance or remote location; **Completion Date**, will the long duration of the project create greater risk of incompletion; **Legal Conditions**, are there any legal clauses stating what will happen under unusual situations; **Communication**, does the contractor exhibit good management skills including the ability to make accurate cost projections?

There are several reasons why a contractor should apply for bid bonds. First, bid bonds assure the business owner that the contractor is acting in *good faith*. Secondly, it guarantees the business owner that those who are bidding on his/her work have the financial and technical knowledge to complete the work. Finally, bid bonding reduces the demand that is placed on a contractor's assets and bank credit.
Since most surety companies use the applicant's work experience to determine whether or not he/she will qualify for bonding, it is not uncommon for new businesses to be denied. If you find your business in this

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* Source: Bonding, Saskatchewan Property Management Corporation, 1988.

situation, do not be discouraged. There are many smaller contracting jobs that do not require bonding. As you complete more jobs and prove your company's viability, you will build a name for yourself in the industry and will qualify for bonding soon enough.

According to Saskatchewan Government Insurance's Surety Department, the annual administration fee of registering 20 bid bonds is $725. Additional bonds can be purchased for $35 each. (These prices are subject to change) The primary purpose of this fee is to cover the costs of investigating the applicant.

Fidelity Bonds

Fidelity bonds insure a business owner financial coverage for losses caused by a dishonest employee. Under fidelity bonding the owner is covered up to the amount of the bond. The surety company will then seek reimbursement from the employee. There are several different types of fidelity bonds.

Named Schedule Fidelity Bond - this type of bond provides coverage over the employee(s) that are named on the bond. Coverage is available only when the employer's loss can be directly traced to the individual. There is no coverage for *mysterious disappearance*.

Blanket Position Bond - under a blanket position bond the employer has coverage over all of his/her employees. The bond automatically covers new employees and ceases the coverage of prior employees upon resignation or termination. The Blanket Position Bond will cover each employee involved in an incident up to the coverage amount. For example, if you as an employer caught 10 dishonest employees and the bond amount was $10,000, you would be eligible for $100,000 in coverage. Unlike Named Schedule Bonds, under a Blanket Position Bond the employer does not have to prove which employee was responsible for the loss.

Primary Commercial Blanket Bond - this type of bond is similar to the Blanket Position Bond except that the amount of the coverage is usually smaller. Where the Blanket Position Bond will cover each employee up to the bond amount, the Primary Commercial Bond will pay out the same amount regardless of how many employees are involved. For example, if there are 10 employees involved in a loss and the bond amount is for $50,000, the employer is eligible for $50,000. If there is only one employee involved however, the employer would still be eligible for $50,000.

Miscellaneous Bonds

There are many types of bonds that have no category of their own. Though they fall under the broad heading of miscellaneous, surety companies still have to be sure that the applicants are fully qualified to perform the obligations of their contracts. Before issuing any of these type of bonds, the surety must know the applicant's education, training, and related work experience. Financial information from the most recent fiscal year must also be provided. Some of the most common Miscellaneous Bonds are:

License and Permit Bonds - certain industries lend themselves to areas where licenses and permits are required. Usually required by service firms, these bonds make the business owner financially responsible for any injury or damage caused to the public. Service firms who may require these type of bonds include electricians, gas stations, used car dealers, and real estate agents.

Customs and Excise Bonds - these bonds ensure the federal government that taxes and duties will be paid by the bond applicant upon request. This type of bond allows applicants to run warehouses and import goods duty free. They also ensure that the operators will pay the federal government all required taxes. For example, under custom and excise, cigarette and alcohol manufacturers must make sure that their retailers are collecting taxes for their goods and that they are being received by government. *The Customs Bonded Warehouses Regulations* specify the requirements for the licensing and operation of a bonded warehouse. Contact Canada Customs and Revenue Agency at 1-800-461-9999 for further information on this type of bond.

Court Bonds - this type of bond is required for litigation cases in the courts and is needed when a plaintiff claims that the property of the defendant is rightfully his. If the plaintiff is correct, he/she will gain custody of the property. However, if it is found that the plaintiff is not the true owner of the property, he or she must return the property or pays its value plus damages to the true owner.

Performance Bonds - performance bonds guarantee the performance of the contracted work. If the owner of a job is not satisfied with the contractors work or feels that the contractor did not perform the level of work that was specified in the contract, he/she can look to the issuer of the bond for compensation.

The surety prequalification process is very thorough. It is important to choose a professional surety producer you are comfortable with to guide you through this process.

If you are not sure how to find a broker who is a specialist in contract surety bonding and insurance, you can contact the Surety Association of Canada at (905) 677-1353, by fax - (905) 677-3354 or email at surety@surety-canada.com

FOR MORE INFORMATION ON BONDING CONTACT:

SGI CANADA
Head Office
2260 - 11th Avenue
Regina, Saskatchewan S4P 2N7
Ph: (306) 751-1200 or 1-800-667-8015
Ask for the Surety Department

Western Surety Company
1874 Scarth Street
Regina, Saskatchewan S4P 4B3
Ph: (306) 777-600 or 1-800-475-4454
Fax: (306) 359-0929
http://www.westernsurety.ca

Surety Association of Canada
Mr. Steve Ness, President
6299 Airport Road; Suite 709
Mississauga, ON L4V 1N3
Ph: (905) 677-1353
Fax: (905) 677-3354
surety@surety-canada.com
http://surety-canada.com/

Sources: SGI Canada, Surety Department, BONDING: A Handbook for Firms Bidding on Construction Projects, 1988 & 1998.
SGI Canada, Surety Department, Your Basic Guide to Bonding, 1994.

BASIC BOOKKEEPING

Summary

This publication describes a simple, single entry record keeping system suitable for a small business that has a limited number of transactions.

Why Keep Records?

- Good records will keep you informed about the past and present financial position of your business.
- Good records will keep you in control and give you the information needed to make good business decisions.
- Good records will satisfy Canada Customs and Revenue Agency, Canada Pension Plan, Employment Insurance, Department of Finance, Goods and Service Tax, Workers' Compensation Board, etc. and facilitate correct and timely remittances.
- Good record keeping increases a new business's chances of survival and an established business's chances of staying in business and earning good profits.

What Record Keeping System Should I Use?

A good record keeping system should be simple to use, easy to understand, reliable, accurate, consistent, and designed to provide information on a timely basis.

The legal requirement concerning financial records specify only that they be a permanent, accurate, and complete record of your daily income and expenses. There are many types of record books and bookkeeping systems available. For example:

- *Double Entry* System - this is the system taught in most high school and college bookkeeping and accounting classes. Each transaction is recorded twice, one account is credited with the given dollar amount and a second account is debited by an equal dollar amount. This is an excellent system, but often formal training and practice will be needed to understand and master it.

- Commercial Bookkeeping Systems - these are available through stationery outlets and are usually a package system with instructions and forms to use.

- *One Write Systems* - these are copyrighted systems that are set up using carbon-backed cheques. As you write the information on a cheque it also transfers the data to a record system.

- Computerized Systems - there are several excellent programs available. These programs offer the speed and capacity of computers as well as the ability to produce daily updated financial statements. One should be careful, however, that they are not buying expensive software programs or computer equipment that has more capacity than they need. Most small businesses grow into the need for a computerized system; usually as a means to control larger volumes of inventory or a larger volume of transactions.

- *Single Entry* System - a single entry system means every dollar transaction is recorded only once, either as income or expense, an asset or a liability. All entries are recorded on a one page synoptic journal or also called a revenue and expense journal. The system is simple, easily understood, and thus requires little training. This is the system we will be describing in the example that follows.

Setting Up a Record Keeping System

(We are assuming the start of a new small business)

Steps:

1. Register your business name with the Corporations Branch, Department of Justice. Obtain a local business license from your municipality and, if required, register for the Goods and Service Tax (GST) and Provincial Sales Tax (PST). If you have employees, register with Canada Customs and Revenue Agency and Saskatchewan Workers' Compensation Board.

2. In order to keep your business separate from your personal affairs, open a separate business account at your local bank. Order numbered cheques with stubs to record cheque details and obtain a deposit book. With this type of account, ensure that your bank will be mailing you a statement along with your cancelled cheques every month so that you can perform bank reconciliations.

3. At a stationery store, buy a columnar record book. These are available in 1 to 36 or more columns. The number of columns you need will be determined by the number of expense accounts you choose to use. We are using twelve columnar paper in our example. (It will not matter if you do not use all the columns). Also, purchase a generic numbered invoice book and a numbered purchase order book. You may consider ordering an ink stamp with your company name and address for use in personalizing your invoices, purchase order books, receipts and even your cheques if they are not printed with your business name on them. Also helpful is a small record book to record vehicle expenses and business travel expenses.

4. Acquire a copy of Canada Customs and Revenue Agency's Business and Professional Income Tax Guide, publication T4002. This guide describes what are eligible business expenses and provides information on depreciation, home-based business expenses, vehicle expenses, etc. You will also require remittance forms, rates and regulations for G.S.T., income tax, E.I., and workers' compensation.

Single Entry System

Each page will record the transactions for the month and the monthly totals from each column will be calculated. You will use at least one page for every month of the year. Depending on the number of transactions, you may need several pages for each month. In these cases, calculate the sub-total at the end of the page and carry forward the sub-total to the top of the next page.

Use first three columns to record the Date, Particulars of the Transaction, and the Cheque Number. Try to pay all bills with a numbered cheque and make sure you fill in the particulars on the cheque stub (i.e. what was purchased, date, and invoice number). Also, put your cheque number and date on the paid invoice. Making this a habit will be helpful if you ever have to trace a transaction.

The next two columns are Revenue and Expenses. Each transaction will be entered in one of these columns. Revenue refers to money coming into the business from sales. Expenses represent payments the company is making and as such, are an outflow of money.

The remaining columns are a breakdown and categorization of the revenue and expense columns. These will vary from business to business. Generally, you will need sufficient expense columns to represent the expenses you most often write cheques for. If a cheque is only needed once a year for a particular expense, it may not warrant setting up an individual column. Instead, you may want to include a *miscellaneous* column. In our simple example we break down the revenue entries into sales and sales tax columns. Certain businesses may need a different sales breakdown. For example, a garage business may categorize sales as Fuel, Parts, Labour, and Confections. The expenses in our example are broken down into inventory, rent, telephone, office supplies, insurance, and miscellaneous.

Other common expense columns that you may wish to include are accounting, legal, advertising, business tax and license, repairs, vehicle, utilities, interest, and wages.

Example

This example Revenue/Expense Journal shows May entries for the fictional ACME Supply Company (the company that supplies Wilie Coyote® with equipment). This example shows the second page for May and therefore starts with the column subtotals from the first page.

Example transactions are as follows:

1. Cheque # 56 for $121.00 dated May 26 to Bob's Stationery to pay for envelopes and letterhead.

2. Cheque # 57 for $1,536.00 dated May 27 to Provincial Parachute Supply for ten parachutes for inventory and resale.

3. Cheque # 58 for $230.00 dated May 27 to SaskTel for cellular phone bill.

4. Cheque # 59 for $580.00 dated May 28 to All-Sask Insurance for yearly liability insurance coverage.

5. Bank deposit May 28 for $2,796.94 for invoices 36, 37, 38 and cash sales for May 26 to 28.

6. Cheque # 60 for $545.00 dated May 29 to W. Coyote for refund of invoice #37 (defective parachute).

7. Cheque #61 for $26.10 dated May 26 to Joe Acme to pay owner for small petty cash purchases in May. (Small cash purchases for postage or parking, etc., which do not warrant a cheque should be paid by the owner and the receipts held until the end of the month or until there is a reasonable total to issue a cheque.)

8. The monthly bank statement was received. A comparison was made of the cheques and deposits listed on the bank statement, and reconciled with the entries we have entered in the revenue and expense columns. A transaction of $15.80 was recorded which is the May bank charges on Acme's business account.

When the columns are totaled at the end of the month, the total under *Expense* should equal the sum of all the expense breakdown columns. The *Revenue* total should equal the sum of all of the monthly revenue breakdown columns. This is used to test and balance your books, insuring amounts and entries were made correctly. The receipts, paid invoices, and other statements should be stored in a manner that allows easy retrieval as needed. One method is to staple all monthly receipts together, put them in an envelope and file them in chronological order.

Expanding the Single Entry System

Since the above example illustrates transactions that may occur in a simple business, a twelve column chart is adequate. However, if you find that more columns are needed, up to 36 columns can be used. For example, you may need to record wages paid out and you may need columns for owner's wages, employee wages, UIC, CPP and income tax. Also you may have capital purchases you wish to record under land, buildings, office equipment, shop equipment, etc.

The *Single Entry* system is very flexible. If you find that you need more columns than are available you may elect to use separate journals for *Expense*, *Revenue*, *Sales on Account*, *Payroll*, and *Accounts Payable*.

Financial Statements

Using the month end totals, you or your accountant should be able to prepare financial statements, such as a Profit and Loss Statement quite easily.

Final Advice

In order to maintain control, business record keeping entries should be completed daily. To ensure their completion, regular time should be set aside for them. In a new business start up, an entrepreneur often wears many 'hats' and sales and customers often take priority over record keeping. This being the case, it may be wise to train a spouse or part-time employee to handle the bookkeeping for your business. Ensure that this task is always done by the same person, for consistency sake.

Hiring an accountant during your business start up may be advantageous as he or she can help answer questions you may have regarding bookkeeping. Some type of Introductory training in accounting is also recommended if you are unfamiliar with accounting processes.

ACME SUPPLY COMPANY
REVENUE AND EXPENSE JOURNAL

Month:	May 1997	Page: 2			Revenue Breakdown			Expense Breakdown				
Date	**Transaction**	**Ch. #**	**Revenue**	**Expense**	**Sales**	**Sales Tax**	**Inventory**	**Rent**	**Telephone**	**Office**	**Insurance**	**Misc.**
	Balance Forward		2,317.18	3,894.00	2,108.63	208.55	3,300.00	500.00		15.00		79.00
May 26	Bob's Stationery	56		121.00						121.00		
May 27	Prov. Parachute Supply	57		1,536.00			1,536.00					
May 28	Sask Tel	58		230.00					230.00			
May 28	All Sask. Insurance	59		580.00							580.00	
May 28	Deposit		2,796.94									
	Invoice 36, 37, 38				2,500.00							
	Cash Sales				66.00							
	PST					230.94						
May 29	W. Coyote (Refund # 37)	60	(545.00)		(500.00)	(45.00)						
												Petty Cash
May 29	Joe Acme -Owner	61		26.10								26.10
	(Petty Cash)											
												Bank Chgs.
May 29	Bank Charges			15.80								15.80
	Month End Totals		4,569.12	6,402.90	4,174.63	394.49	4,836.00	500.00	230.00	136.00	580.00	120.90